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PARTNERSHIP FOR ADVANCING REFORMS IN THE ECONOMY IN BOSNIA AND HERZEGOVINA

**YEAR 5 ANNUAL REPORT
MARCH 5, 2012 – MARCH 4, 2013**

March 2013

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc. and its Partnership for Advancing Reforms in the Economy (PARE) Project Staff in Bosnia and Herzegovina.

PARTNERSHIP FOR ADVANCING REFORMS IN THE ECONOMY IN BOSNIA AND HERZEGOVINA

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Contract No. 168-C-00-08-00102-00

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USAID/Bosnia-Herzegovina Economic Development Office**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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FOREWORD

This document is the USAID PARE project in Bosnia-Herzegovina Year 5 Annual Report for the period from March 5, 2012 to March 4, 2013.

The project is being implemented by Chemonics International under contract No. 168-C-00-08-00102-00 executed with the United States Agency for International Development (USAID). This report presents the progress made during the reporting period and provides information on the developments and USAID PARE's results achieved during Year 5 of its operation.

The USAID PARE would like to acknowledge valuable contributions, guidance and support provided by its Contracting Officer Representative (COR), Ms. Amira Vejzagić-Ramhorst.

Sarajevo,
March 2013

.

ABBREVIATIONS

BA	Banks Association of Bosnia and Herzegovina
BARS	Banking Agency of Republika Srpska
BCP	Basel Core Principles
BiH	Bosnia and Herzegovina
BSA	Banking Supervisory Agency
CBBH	Central Bank of Bosnia-Herzegovina
CMS	Credit Management System
COP	Chief of Party
CRD	Capital Requirements Directive
COR	Contracting Officer's Representative
COREP	Common Reporting
DCA	Development Credit Authority
DIA	Deposit Insurance Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EU	European Union
FBA	Banking Agency of FBiH
FBiH	Federation of BiH
FCU	Financial Coordination Unit
FDC	Financial Development Council
FDR	Financial Development Report
IA	Internal Audit
IADI	International Association of Deposit Insurers
IAIS	International Association of Insurance Supervisors
IIA	Institute of Internal Auditors
ICP	Insurance Core Principle
IMF	International Monetary Fund
KRA	Key Result Area
LOP	Life of Project
LPG	Loan Portfolio Guarantee
M&E	Monitoring and Evaluation
MFT	Ministry of Finance and Treasury of BiH
PARE	Partnership for Advancing Reforms in the Economy
PIR	Project Intermediate Result
PMP	Performance Monitoring Plan
PMU	Project Management Unit
RS	Republika Srpska
SAI	Supreme Audit Institution
SBA	Stand-By Arrangement
USAID	U.S. Agency for International Development
TA	Technical Assistance

SECTION I. EXECUTIVE SUMMARY

After completion of the USAID's Partnership for Advancing Reforms in the Economy (PARE) project original four-year mandate (March 2008-March 2012), the project continued activities throughout its fifth year through a combination of a three-month no-cost extension (March-June 2012) and the first portion of a fifteen-month costed extension, effective as of June 5, 2012 through September 4, 2013. This report covers activities undertaken in Year 5 of the project, from March 5, 2012 to March 4, 2013. The main objective of the project remained to "support economic reforms and institution building to assist Bosnia and Herzegovina on its path towards joining the European Union" through the three project components: (i) advancing the regulatory framework for the financial services sector (ii) strengthening the financial administration of public resources and (iii) improving the enabling environment for private-sector investment.

During the reporting period, PARE leveraged its past work and continued to increase compliance of regulation in the BiH financial sector with international standards, EU pertinent directives and best practices. Also, this year, PARE directed its assistance to advance the project's Component 2, thus addressing the objectives to strengthen the overall front to combat corruption and irregularities and improve procedures and regulations for performance and financial audit findings implementation. These approaches were translated into projected plan and activities aimed to leave a lasting legacy to the project partners who were supposed to continue working in these areas after the project closes out.

Throughout Year 5, PARE continuously applied the same guiding principles to its delivery technical assistance: (1) increasing convergence within the country and with EU, (2) acquiring counterpart buy-in and ownership, (3) increasing compliance with the *acquis communautaire*, (4) producing meaningful, measurable results, and (5) building donor synergies.

PARE's technical assistance interventions have been developed and implemented in close partnership with the key local partners and the donor community. The key project deliverables in the reporting period are highlighted below:

HIGHLIGHTS

- Confidentiality legislation aligned with EU CRD requirements was adopted: (i) by the Federation Parliament in September 2012 and (ii) Republika Srpska National Assembly in March 2013.
- The BSAs Operational Plan for Implementation of Banking Supervision Reform Strategy and corresponding training and guidelines for project management were delivered to the banking regulators.
- The 2008 Basel II/CRD strategy was updated and adopted by the banking supervision agencies (BSAs) in February 2013.
- Quantitative Impact Study preparatory stages were completed. Instructions, forms and manuals were delivered to BSAs, and a study tour was organized in the Center for Excellence in Finance, Ljubljana, Slovenia in December 2012.
- The decrees on (1) remuneration policies, (2) diligence of members of management bodies and (3) qualifying criteria of persons for managing and supervisory boards were prepared and discussed with the BSAs staff and management.

- An intensive capacity building program for BSA management and staff was delivered with a primary focus on implementation arrangements for Pillar 1 regulations, i.e. Credit Risk, Credit Risk Mitigation, External Credit Assessment Institutions (ECAIs), Market Risk, Operational Risk and Own Funds. In parallel, the BSAs' staff was trained to use respective Common Reporting (COREP) tables.
- The BiH Model Financial Development Report was developed in partnership with the BiH Ministry of Finance and Treasury staff, providing in-depth analysis and forward looking opportunities.
- PARE's assessment of BiH insurance supervision identified a need for technical assistance to the insurance agencies to support compliance with the Solvency II requirements.
- Amendments to the Law on Deposit Insurance Agency (DIA) increasing compliance with the International Association of Deposit Insurers (IADI) principles 1 and 16 were finalized and submitted to the BiH parliament for adoption through the Council of Ministers in October 2012.
- Risk-based premium pilot model has been developed in close cooperation with the DIA and technical staff of the Agency was trained on its content and practical utilization.
- PARE recommended criteria for calculation of effective interest rates in line with the EU Directive and international standards. The methodological options for introduction of reference rates in BiH were developed, too.
- PARE and the BiH Institute of Internal Auditors jointly completed the internal audits in the public companies Vodovod i kanalizacija Zenica (Water Supply and Sewage utility Zenica) and Toplana Banja Luka (Central Heating utility Banja Luka).
- A public sector performance audit gap analysis and a case study review were completed by the project to improve an impact and utilization of performance audit reports. The report with recommendations was disseminated to the state and entity level Supreme Audit Institutions and Parliamentary Audit Committees.
- PARE developed selection criteria for identification of cantons/municipalities to receive the assistance in developing procedures for reviewing of financial audit reports.
- As part of PARE's targeted anti-corruption assistance, the Code of Conduct/Public Sector Ethics training seminar for selected civil servants, was held in cooperation with the BiH Agency for Civil Service. This training will serve as a basis for developing a full on-line training module on ethics for civil servants.
- Workshop on detection and reporting of fraud and other irregularities was delivered to financial and IT auditors from the three Supreme Audit Institutions. It provided guidance on international experience and best practice.
- PARE conducted a feasibility assessment on establishment of the BiH Association of Risk Managers.
- PARE continued to successfully administer the BiH DCA portfolio and completed the DCA utilization assessment and recommended improvements.
- PARE conducted 25 capacity building programs and public events supplementing the project's technical assistance in banking supervision, deposit insurance, financial regulation and oversight, financial development reporting, financial audit in public sector, and other related subjects.

SECTION II. THE MACROECONOMIC ENVIRONMENT IN YEAR 5

Overall, the 2012 was a difficult year for both advanced economies and economies in transition as it was characterized by decline in economic growth and worsening of overall economic outlook. A common characteristic for the banking sector in the transition countries was that the banks have lost significant external funding which depressed the credit growth and contributed to a slower output in 2012.

In BiH, the economic crisis expanded across major sectors of economy, while the financial sector, although exposed to various pressures, retained a satisfactory level of stability, soundness, and liquidity. A negative trend, though, was recorded with the Non-Performing Loans (NPLs) relative to the previous years. In this environment, domestic demand and private investment have decreased while public spending has exceeded the available revenue envelope. Domestic consumption has remained subdued, largely due to fiscal austerity measures, rising unemployment coupled with low purchasing power of BiH citizens, falling remittances and slow credit growth.

An unfavorable political situation contributed to the negative economic developments which all slowed down the pace of BiH's transition into the European Union membership. Also, according to the Corruption Perception Index (CPI) 2012, published by Transparency International Bosnia and Herzegovina is stagnating and it remains closely-ranked with countries where corruption is a major problem, and a barrier to growth, stability and investment. This Index ranks BiH 72nd out of 176 countries this year with a score of 42 (on the scale of 0-100). European Commission indicated that corruption is prevalent and that no significant efforts have been invested in tackling this issue, including a lack of implementation of the Anti-Corruption Strategy.

The key indicators of the BiH's macroeconomic performance in 2012 are presented in the table below:

Selected Macroeconomic Indicators	2007 (BAM bn)	2008 (BAM bn)	2009 (BAM bn)	2010 (BAM bn)	2011 (BAM bn)	2012 (BAM bn)
Nominal GDP	21.6	24.6	23.9	24.7	25.4	25.9
Inflation (%)	4.9	7.4	-0.4	0.9	3.7	2.1
Trade Balance	-7.9	-9.6	-6.8	-6.5	-7.3	-7.3
Coverage Import/Export (%)	42.71	41.22	44.71	52.11	53.0	51.8
Current Account Deficit (% of GDP)	12.9	14.6	7.5	5.2	9.6	9.5
Foreign Currency Reserves	6.7	6.3	6.2	6.4	6.4	6.5
Sovereign Debt	3.9	4.2	5.2	6.2	6.7	7.1
Banking Sector						
Total Assets	19.5	21.0	20.9	21.1	21.9	22.3
Total Loans (net of reserves)	11.3	14.5	14.1	14.6	15.3	15.9
Non-Performing Loans (% of total loans)	3.0	3.1	5.9	11.4	11.9	13.5
Total Liabilities	19.5	21.0	20.9	21.1	21.9	22.3
Citizens' Deposits	5.2	5.2	5.7	6.5	7.0	7.6
Total Turnover on Stock Exchanges in BiH	2.0	0.7	0.4	0.28	0.67	0.7

Data provided by CBBH bulletin and CBBH staff & Agency for Statistics of BiH

As a solution the BiH authorities have agreed on a macroeconomic stability program with the IMF through signing of a 24-month US\$ 520.6 million (SDR 338.2 million) Stand-By

Arrangement (SBA), approved in September 2012. The program is meant to serve as a buffer against external shocks from the on-going Eurozone crisis and to function as a policy anchor for outstanding structural reforms. The key features of the program are to: (i) improve national policy coordination; (ii) maintain fiscal discipline, advance public sector reforms to reduce the size of the government, and improve the composition of expenditure; (iii) safeguard the financial sector stability in the context of the currency board; and (iv) intensify reforms to improve the business environment to support growth, investment, and job creation.

Despite the weak economic environment which resulted in subdued credit activity and souring NPLs (that reached 13.5 per cent in 2012) the BiH banks managed to deal with the ongoing problems and even increase their profitability. The banking sector was not subject to large credit outflows from parent banks, but the system remained fairly liquid and well-capitalized.

The BiH business environment indicators remained poor. The World Bank Doing Business 2013 Report ranked Bosnia and Herzegovina at 126 places, out of 183 economies, which was the lowest ranked SEE country with respect to the overall ease of doing business. In the context the country continued to perform poorly on construction permits, starting business, obtaining electricity connections, and enforcing contracts.

SECTION III. ACHIEVEMENTS BY COMPONENT

A. Component 1: Regulatory System for Financial Services Sector Strengthened

Subcomponent 1.1: Banking Supervision

In the reporting period, PARE continued to provide customized technical assistance (TA) in order to support the Banking Supervision Agencies (BSAs) in implementation arrangements to build upon key milestones achieved in 2011, namely (1) finalization of the EU-compliant regulatory framework consisting of 13 regulations/decrees and associated articles of the Banking Law, and (2) their adoption by the respective BSA governing boards as a "sound and comprehensive basis" for movement forward in establishing and implementing a harmonized framework for banking supervision in BiH. Also, in response to specific requests from the counterparts the project assisted with preparation of regulations aligned with EU CRD requirements to enable the international cooperation and financial stability efforts.

The project's planned activities for 2012-2013 consolidated progress from 2008-2011 and put in place a sound foundation for the BSAs to be able to move forward towards gradual implementation and enforcement of a new regulatory framework that is compliant with Basel II/III and relevant EU Directives. These activities are being undertaken in close coordination with and between PARE counterparts, including BSAs and the CBBH, and with their full ownership of the process and outcomes, as evidenced by the following quotes.

"We are ready to adjust to the EU standards and directives", said Ms. Slavica Injac, Director of the BARS, and added: "Both the banking agencies in BiH as assisted by USAID PARE have been preparing themselves for a while to adjust their regulations to the EU directives, so when the time comes, we are ready. All the regulations have been prepared gradually, while the opportunity will be given to the banks through the Banks Association to participate actively in developing new decrees in banking supervision regulation. The banking sector has been generally evaluated as the most developed in BiH"

"The USAID PARE project has provided a number of capacity building events to educate the staff in the partner institutions including the banking agencies, among others, in order to strengthen the regulatory framework in the financial sector to bring it in compliance with international financial standards and EU directives", said Mr. Zlatko Bars, Director of the FBA, and added : "By providing a continuous development of human resources, the Agency creates so called a human capital equipped with a specific knowledge and ability to adequately supervise the continuing changes in banking and non-banking financial sector."

(The quotes taken from Magazine Banks in BiH, No 143, February 2013)

"BiH banking sector is closer to the Europe and EU standards more than any other sector in the BiH economy", said Mr. Mijo Mišić, Secretary of Banks Association of BH and added: «The banking reform in BiH is a successful story that should be promoted. Uncertainty, quick changes, challenges that the financial sector faces globally but also in the EU and regionally, resulted in more intensive cooperation of the financial institutions including the Central Bank of BiH, Agency for Deposit Insurance of BiH, as well as entity-level banking agencies. This cooperation is demonstrated by inter-agency dialogue on all

technical issues as well as our ability to participate in proposing and developing banking regulations and legal acts, as the prerequisite for a stable banking and financial system.”
(The quote taken from Magazine Banks in BiH, No 142, January 2013)

The 2012-2013 Operational Plan for Implementation of Banking Supervision Reform Strategy has been vetted by the BSAs, adapted to meet BSA priorities as well project objectives, and structured to correspond to a timeline that is feasible for the BSAs to achieve.

The project's TA for preparation of the Operational Plan took place from April through June 2012. PARE engaged three consultants to prepare the background for the important segments of the Operational Plan. The BSAs closely participated in the process through technical staff and top management meetings with the project team. There were six meetings in total and three versions of the document were developed and shared. BSAs took an active role in determining what would be feasible and optimal to achieve in the project's extension period – March 2012 through September 2013.

The Operational Plan is composed of several important segments vetted by BSAs including Supervisory disclosures, Reform Strategy Update, Quantitative Impact Study (QIS), Common Reporting (COREP), additional decrees development and capacity building.

Activity 1.1.1: Improve the organization and management of BSAs

In support of a proactive approach of counterparts, PARE pursued intensive TA on project management. Activity was aimed at adopting the tools and procedures needed to manage a complex project with a number of sub-projects, and to reflect the logical steps required to achieve the full implementation of regulatory framework. To that extent, PARE consultant/s had three technical meetings with the BSAs technical staff to discuss the practical problems BSAs face in implementation of the reform including open issues on organization, assigning roles and responsibilities, Basel II vs. CRD requirements, the scope of transposition of CRD, as well as interpretation of the recommendation for “gradual and prudent steps in enforcement stage.” The BSAs technical staff also received the initial draft of Manual for Project Management in BSAs customized for banking supervision institutions by PARE consultant Tomaz Rotovnik. This manual was discussed in details in September 2012 and then finalized with top management of BSAs during the meeting in Mostar in January 2013.

Activity 1.1.2: Assist the BSAs to update the 2008 Basel II/CRD Strategy

During September 2012, PARE consultant/s held a series of meetings and communicated with representatives of counterparts in order to ensure updates for Strategy on Banking Regulation Reform aligned with the recent requirements of EU accession, requirements for financial stability, and domestic developments. The final draft was developed after a September 27, 2012 meeting in Banja Luka during which all relevant aspects of the document were discussed in detail. After the meeting Strategy update inputs were delivered to counterparts providing them with the opportunity to contribute to the suggested content and timeline. In order to achieve convergence and a common approach the updated Strategy papers were exchanged between the implementing partners before finalization of the Strategy with assistance from the PARE consultant. PARE consultants had additional advisory meeting on Strategy at the end of February 2013 to discuss the open items of the Strategy text. Both BSAs continued their technical meetings which

resulted in finalized text of Strategy Update that was adopted by respective BSAs Governing Boards on 27 February 2013.

Activity 1.1.3: Support Basel II/CRD Reform Information Publication (Supervisory Disclosure)

Both BSAs agreed to undertake necessary level of transparency in their work as required by Pillar 3 of Basel II standards. To that extent, PARE produced materials, procedures, and TA to BSAs in order to enable them to use this tool in the implementation stage of reforms. TA discussed different issues within the task of Supervisory Disclosures including the legal requirements of the Basel II/CRD reform package with the emphasis on preparation of supervisory disclosures, the content of supervisory disclosures as well as practical experiences and guidance on web-based solutions, the maintenance process, and similar user issues. Implementation of the package will serve as an indicator of progress of CRD implementation in BiH. Both BSAs established working teams to prepare the set of Pillar 1 Basel II decrees for publication on their web sites. Their task is to do a final proof-reading, adapt the text to local language legal requirements, and reconfirm some quantitative requirements after the QIS is conducted.

Activity 1.1.4: Adapt and implement the Common Reporting Framework (COREP)

As of September 2012 all of the capacity building events dealing with Pillar 1 of Basel II regulation included the training on the use of COREP. As COREP is a commonly used template in the EU, the task of TA was two-fold. The first task was to train BSAs staff on how to use COREP tables, to familiarize them with its organization and content, and to learn particular reporting practice on practical examples risk by risk. At the same time, consultants were developing COREP templates adapted to regulations drafted in the previous year i.e. Credit risk standardized approach, Credit Risk Mitigation, Market Risk, Operational Risk, Own Funds so that finalization of COREP templates coincides with the initial publication of draft decrees of Pillar 1 within supervisory disclosures process. (Please see Annex 3 - Training Activity Summary)

Activity 1.1.5: Implement Bosnia Quantitative Impact Study (BAQIS)

Within the reporting period all of the preparations were made to conduct the QIS in a timely and effective manner. To that extent, a Study Tour to Slovenia in December 2012 was focused on the aspects of quantitative and qualitative segments of the QIS and these were presented to the key BSAs personnel in charge of development and supervision (Please see Annex 3 - Training Activity Summary). PARE produced complete Guidelines for Banks with instructions and examples of quantitative data entry into COREP based templates for Credit Risk, including Credit Protection elements. PARE produced adapted COREP tables as well and Qualitative questionnaire that will provide BSAs with important insight into the preparedness of BiH banks for adaptation to the new regulatory requirements. At the Mostar meeting in January 2013 both BSAs managers confirmed that all preparations are in place and that QIS will be conducted in April-May 2013.

Activity 1.1.6: Deliver Capacity Building to BSAs

During the reporting period PARE organized a number of capacity building events with the single aim to support implementation of the regulatory framework and enable BSAs to manage the process in accordance with high prudential standards. The capacity building events were specifically tailored to: (i) support BSAs in finalization of six decrees of Pillar 1 (Credit Risk, Credit Risk Mitigation, External Credit Assessment Institutions-ECAIs, Market Risk, Operational Risk and Own Funds), (ii) improve project management

knowledge and skills, and (iii) develop departments and top management of BSAs. All of the trainings combined the actual drafted regulations and COREP reporting templates. The PARE regional consultants provided their crucial insight not only into content of regulations but to a supervisory practice used in respective jurisdictions in the region. (Please see the list of trainings in the Annex 3 - Training Activity Summary)

Activity 1.1.7: Facilitate revision and eventual adoption of decrees by BSAs selected from the Basel II/III framework

As reported in the Y4 annual report, PARE supported the BSAs in promulgating amendments to the Banking Agency Law/s on confidentiality regulations aligned with EU CRD requirements. During the reporting period, PARE provided additional consultations to counterparts including RS Ministry of Finance and Banking Agency of Republic of Srpska to support the process of parliamentary adoption. This resulted in an actual adoption of amendments in FBiH Parliament in September 2012 (FBiH Official Gazette No.77/12) and adoption of draft amendments in RS National Assembly in March 2013.

In accordance with the Operational Plan and BSAs commitment, PARE developed additional draft Decrees that further contribute to the adoption of EU CRD standards. These were: (1) Decree on remuneration policies, (2) Decree on diligence of members of management bodies and (3) Decree on qualifying criteria of persons for managing and supervisory boards. The decrees were discussed with the working teams of the BSAs in February 2013, and the agreement was reached to finalize the work in March-April 2013 when adoption of the decrees by Governing boards of BSAs is expected.

Basel II Website

In the reporting period the Banking Supervision Reform in BiH – Basel II website (www.bankarskasupervizija.ba) was maintained and updated on a regular basis following each technical assistance intervention/activity initiated and completed by the project in a timely manner. The website was developed following the Committee of European Banking Supervisors (CEBS) standardized format. It contains updated regulatory framework information and records about the conclusions/observations from the working groups meeting, results of joint assessments and decisions about the supervisory procedures, useful cross references to the relevant EU CRD, and analytical documents/presentations.

Since the website's launch in January 2011, it was visited more than 11,800 times by its registered members (currently 102) including representatives of the BSAs, Central Bank of BiH, Deposit Insurance Agency of BiH, Ministries of Finance (state and entity level), Banks association, consultants, USAID representatives and PARE team members. Its content provided all registered users with the latest information regarding the implementation of Basel II standards (aspects of Credit, Market and Operational Risk Management, Project management, Strategy Development, QIS and COREP, and related training events) as well as other financial sector reforms managed or co-managed by the project (Preparation of BiH model Financial Development Report, training for FCU and DIA). Upon PARE's completion, this website will be handed over to the counterparts and will serve as an important legacy tool of project developments and its outcomes. Furthermore, this website can be used in the future as a solid basis for tracking and

monitoring of the latest regional, EU, and global developments such as implementation of Basel III/IV standards and new CRDs.

Subcomponent 1.2: Financial Coordination Unit Advanced

Activity 1.2.1: Assist the FCU to produce Financial Development Report for BiH

During PARE's four-year implementation, the project worked closely with the Ministry of Finance and Treasury of BiH (MFT) on providing a demand driven TA that resulted in the formation of the Financial Coordination Unit (FCU) within the MFT. Establishment of the FCU was acknowledged as one of the major achievements by the BiH EU Progress Report for 2011, as well as development of the Law on Financial Development Council (FDC). In that regard, PARE organized several capacity building trainings in order to strengthen and increase the capacities of the Ministry's staff to monitor and report on the latest developments and trends in the BiH financial sector. In its fifth year, following the structural changes within the MFT and appointment of new government officials, PARE organized several technical meetings in order to inform the newly appointed officials on the past TA provided by the project, as well as on the plan of activities in the extension period.

Following these technical meetings, the counterparts demonstrated a strong commitment for continuation of the PARE TA with the FCU. It was also concluded that further work on the implementation of the Law on FDC would not be continued as it does not represent a high-level priority to the Ministry. In that regard, in October 2012, PARE initiated the development of the BiH model Financial Development Report (FDR) in a partnership with the MFT's technical staff. The main objectives of the development of model FDR were: (a) to build capacity of the MFT's staff, (b) to make a detail analysis of the status and trends in the BiH financial sector, EU, and worldwide, and (c) to identify the priorities, conclusions, and recommendations for improvement within the BiH financial sector.

In preparation of the model FDR in the period of October 2012 – February 2013, PARE organized several technical joint workshops and meetings with the representatives of the MFT in order to identify the available data and information sources, and analytical approaches suitable for the report completion. The model FDR was finalized in February, 2013 and was composed of several sections including the main macroeconomic and financial indicators, financial sector structure and quality of the institutional framework, detailed overview of the sectors of banking, insurance, leasing, microcredit organization, capital markets and investments funds, and financial services consumer education and protection. The model report provides a thorough and quality analysis of the BiH financial sector, detects current and future problems and obstacles for financial development and proposals on how to solve them. It contains an overview of the latest accepted international regulatory standards by sector (based mostly on EU Directives), outlines the identified gaps between the BiH and EU financial sector legislation, and provides an overview of the latest legislative improvements initiated by the USAID PARE.

“Finalization of the development of the BiH Model Financial Development Report could not have been possible without the continuous assistance from USAID PARE team members and consultant who provided up-to-date information on the latest trends and the developments, fastened the research process, provided valuable recommendations and

insights in all segments of the report, as well as provided a flexibility and understanding of our current professional obligations and standards. While we have had a lot of experiences writing reports, researching the latest information, work with USAID PARE expanded our visions, prepared us for the work ahead and provided us with a unique opportunity to further build upon our professional and academic careers“
(The quotes from Biljana Tabakovic, Jasmina Salihagic and Igor Blagojevic, FCU members).

Subcomponent 1.3: Insurance

In the reporting period, PARE maintained continuity of relationships with counterparts in the insurance sector. Principal activities were related to the improvement of the insurance sector regulatory framework compliant with the EU directives, International Association of Insurance Supervisors (IAIS) standards and best practices.

The PARE team maintained a good working relationship with the EC Twinning project BA 07 IB FI 01 “EU Sustainable Support to capacity building of Insurance agency of BiH (IA BiH) and Insurance Supervision Agencies of FBiH and RS“ which ended in April 2012.

In response to the demand expressed by the IA BiH for additional TA and in order to clarify and position its TA activities, in January 2013 PARE performed and produced “Assessment Report – Findings and Recommendations” which provided a thorough description of the current status of the insurance supervision sector in BiH in relation to the compliance with EC Solvency II / IAIS standards and provided recommendations for the next steps.

The assessment showed that BiH has a small insurance sector, even by the regional standards. And the insurance sector in BiH has not yet reached a takeoff position to contribute to a general economic development. In addition, BiH’s supervisory agencies are just beginning to apply Solvency I standards, while Solvency II standards vary significantly from traditional supervisory approaches. Although BiH now has a model law to provide a legal framework for Solvency II compliance, the supervisory agencies and the industry lack the capability to implement this framework. The assessment report concludes: “*With very limited resources, now focused on some serious market problems, the supervisory agencies need significant assistance over several years to become Solvency II compliant*”, and suggests *several* topics for consideration over the next six months. It also makes a proposal how to address the remaining Insurance Core Principles (ICPs) and Solvency II sections in a one, three, and five-year timeframes. Based on these findings, the assessment report recommends a phased approach to build compliance and capacity.

In the remaining project period:

- PARE will provide the BiH State Insurance Agency with the tools and capabilities to participate in a cross border group supervision (due to the active participation of foreign insurers in the ownership structure of BiH insurance companies). Namely, PARE will help in drafting the amendments which will include Solvency II confidentiality provisions and clear definitions of insurance financial groups. Also, in drafting amendments, PARE will include alignment and compliance with the IAIS standards such as ICP 3 Information Exchange and Confidentiality Requirements; ICP 23 Group-wide Supervision; ICP 25

Supervisory Cooperation and Coordination; and ICP 26 Cross-border Cooperation and Coordination on Crisis Management; and

- PARE will help the local counterparts by designing a data plan which will let them consolidate the data already reported to the agencies, along with any additional data required. Under this activity, IAIS standards such as ICP 14 Valuation; ICP 16 Enterprise Risk Management for Solvency Purposes; ICP 17 Capital Adequacy; and ICP 20 Public Disclosure, will be referenced.

In its Letter (Annex 7) dated February 18, 2013, the IA BiH acknowledged and thanked USAID PARE for performance of the assessment and expressed its concurrence with both short and long-term recommendations. Based on identified long-term needs, the IA BiH expressed a demand for increased technical assistance both in scope and duration which will extend past the project life span of PARE.

Subcomponent 1.4: Deposit Insurance Agency

Activity 1.4.1: Assist DIA to increase compliance with core IADI deposit insurance principles 1, 16 and 17 and assist DIA and BSAs to amend relevant legislation, by-laws and administrative procedures governing deposit pay-out and provisional bank administration

In the reporting period, PARE worked extensively with DIA and BSA staff on reviewing current legislative solutions and proposing steps towards increased BiH compliance with IADI Core Principles and EU Directives in the area of deposit insurance. In the period between May and August 2012, PARE produced the “Report on Insured Deposits Payout and Problem bank Resolution in BiH - Proposals for Improvement” presenting the level of compliance of the current legislation with international standards and principles.

USAID PARE organized a workshop session for the BiH financial sector implementing partners including the DIA, BSAs, CBBH, and the Banks Association (BA) during which the findings of the report were presented. The workshop was focused on existing regulatory gaps between the banking supervision and the deposit insurance regulation as well as making recommendations for its strengthening and increased compliance with the pertinent EU Directive.

PARE advanced its assistance to the DIA towards achieving compliance with the standard 1 and standard 16 of the core IADI deposit insurance principles. The activity resulted in the amendments which were adopted by the Governing Board of DIA at its 24th session on September 24, 2012. These amendments were forwarded to the BiH Parliament for adoption via the Council of Ministers on October 11, 2012. The details of this regulatory adjustment are explained below:

- Increased compliance with the IADI Principle 1 was achieved through a set of amendments which will enable SMEs' deposits in the banks of Bosnia and Herzegovina to be covered by the deposit insurance program. These amendments are in line with the IADI Principle 1, –which provides the following explanation and supporting guidance: „*The focus of protection should be on those depositors who are generally not in a position to make an informed assessment of the risk that*

the bank to which their funds entrusted may fail (e.g. retail and small business depositors)... “.

- The current DIA law (Article 12.1. Para 1) predicts cessation of a membership in the deposit insurance program for banks in which a temporary administration was appointed. Throughout PARE's assessments and workshops, it was suggested that this solution be amended in order to comply with the IADI Principle 16 which requires: “*Effective failure-resolution processes should: ...minimize resolution costs and disruption of markets...*”. Accordingly, an amendment was proposed to remove current provision on obligatory cessation of the membership in the insurance deposit program at the moment of appointment of the temporary administration in a bank.

However, the issue of reimbursing depositors in a prompt way, as set in IADI Principle 17 was not legally possible to resolve through amendments on the Law on DIA alone. The regulatory competence for this part falls on the entity Laws on Banks and the Ministries of Finance. Through the PARE's workshop in August 2012, positions of DIA and BSAs in the regard to swift pay out of secured depositors differed significantly. As a transitional solution to comply with the IADI Principle 17, a consensus was reached to introduce limitation of “maximum 12 plus 6 months duration of the temporary administration”. This solution requires amendments to the entity Laws on Banks which are expected to be proposed by the entity Ministries of Finance and adopted by the Entity Parliaments by the end of March 2013.

In its Letter of satisfaction dated November 5, 2012, DIA acknowledged and thanked USAID PARE for technical assistance on these activities (Annex 6).

Activity 1.4.2: Design and test pilot risk based deposit insurance premium model

To build upon the TA provided to the Deposit Insurance Agency of BiH in 2011, in its fifth year PARE continued to provide demand-driven assistance to the Agency. On that track, during the first half of 2012 the project worked with the DIA on updating the flat rate (deposit threshold) premium model developed in 2010 and determining the deposit insurance premium for 2012. The model was updated in accordance with the recent amendments to the Law on Accounting Standards in FBiH and amendments to the Law on Banks of FBiH, using 2011 and 2012 BiH banks data, and was presented as a proposal at the meeting of the DIA's Management Board in June, 2012. DIA's Management Board uses the current model and the reporting format in order to set the premium rate and other financial parameters of deposit insurance system.

Following the completion of this activity, and in line with the request from DIA's Management and its objectives included in the “Operational Plan for 2012”, in November, 2012 PARE initiated the development of the risk-based premium pilot model for the members of the deposit insurance scheme. The first step included the presentation of the currently used/available models and approaches to differentiating premiums within the deposit insurance scheme including the models based on the current Federal Deposit Insurance Corporation (FDIC) and European Commission's draft Directive on deposit insurance, as well as the third combined/joint model which in itself contains various methodological options and elements from both of the previously described models.

PARE prepared a report outlining the necessary future steps and recommendations towards developing the risk based premium pilot model which was sent to DIA for comments in order to attain their commitment on the specific methodological options and approaches which would be included in the model. In that regard, based on DIA's feedback, USAID PARE developed the risk-based premium pilot model in January, 2013 and provided thorough capacity building to the Agency's technical specialists on its content and practical utilization. The pilot model was developed in the technical terms in a flexible fashion, meaning that it allows DIA to combine different features of the above described models, and permits it to test different approaches in practice in the BiH environment. Once the preconditions for full implementation of the risk-differentiated premiums are met including (i) harmonization of the regulations in BiH with the International Accounting Standards and equal implementation of such regulations across BiH; and (ii) harmonization of the regulations in BiH with the international banking supervision standards and equal implementation of such regulations across BiH, DIA will eventually have to select which approach to apply when differentiating premiums. The final step towards finalization of this technical assistance activity will include validation of the already developed risk-based premium pilot model using 2012 data for BiH banks. As a result, DIA will receive a finalized and validated risk-based premium model and their staff will be fully trained on its content and practical utilization in order to later prepare policy recommendations and analysis for DIA's top management and Governing Board.

Subcomponent 1.5: Central Bank of Bosnia and Herzegovina

Activity 1.5.1: Improve compliance with EU Consumer Loan Directive by assessing the current BiH methodologies for effective reference interest rate calculation and propose a model for reference rates

In March, 2012 the Central Bank of BiH (CBBH) in close cooperation with the World Bank produced an "Action Plan on Consumer Protection" in the banking and microfinance sectors in BiH. The Action Plan identified specific measures that would strengthen consumer protection and improve financial literacy as preconditions for further development of the financial sector. In that regard, PARE was approached by the CBBH for TA in the (1) effective and reference interest rates issues and their alignment with the latest international standards and practices and (2) introduction of reference interest rates in BiH.

Related to the effective and interest rates, during the period of July – August 2012, PARE conducted an assessment of the legal framework, and met with various stakeholders including entity BSAs, CBBH, Banks Association and World Bank Branch Office in BiH in order to:

- analyze the currently applied methodologies for calculation of effective interest rates in the Federation and Republika Srpska;
- identify gaps between present BiH regulations and relevant EU Directives;
- provide an overview of the current state of effective interest rate implementation in the FBiH and RS; and
- propose to the BSAs and CBBH a list of criteria which need to be implemented towards achieving their compliance with the international standards and practices.

The findings and recommendations from this assessment were presented at the workshop that was organized in August, 2012 for the participants from the BSAs, CBBH, DIA, Banks Association and various commercial banks. Following the completion of the workshop it was unanimously agreed that for future work in this segment a working group will need to be established in order to develop a unified methodology for calculation of effective interest rates across BiH (for both FBiH and RS).

In the period of August – September 2012, PARE worked closely with various stakeholders (BSAs, CBBH, Banks Association, World Bank Branch Office BiH) to develop six options for introducing reference interest rates and criteria for selection of each developed option. These options along with several key recommendations were presented at a workshop in August 2012 mentioned above, as well as at the Banking Supervision Coordination Committee held on September 25, 2012 at the request of the CBBH.

At the Coordination Committee meeting the CBBH Governor along with key representatives of the BSAs and Banks Association provided his full support for introducing reference interest rates in BiH and agreed to set up a working group composed of five members who would be solely in charge of dealing with this issue. The working group was formally established in November, 2012 with its first meeting scheduled for mid-November in order to discuss and agree on the methodological option and approach for introducing reference rates in BiH, and analyze whether further technical assistance from USAID PARE is needed to finalize the process. However, at the annual meeting of the banks and financial institutions which was held in Trebevic on November 15, 2012 and attended by various representatives of CBBH, BSAs, MFT, Banks Association and BiH commercial banks, the CBBH Governor informed the audience that the issue of reference interest rates will not need to be addressed furthermore for now. This is due to the fact that in the RS a reference interest rate was introduced with specific elements, including one which has to be measurable and clearly disclosed in the contract, and similar solution has been prepared for implementation in the Federation. Furthermore, the CBBH Governor emphasized that there is a clear stance that banks will decide on what should be disclosed and what should be regulated by the BSAs.

Activity 1.5.2: Develop Consumer Protection educational content for the CBBH website

PARE has continued its assistance to the CBBH to further expand the educational content of the CBBH website to better educate consumers about the financial products and services in BiH (including exchange rates, variable rate loans, loans contracts, effective interest rates, among others) in accordance with the Action Plan on Consumer Protection that the CBBH and World Bank Office in Sarajevo released in February of 2012.

B. Component 2: Financial Administration of Public Resources Improved

Internal Auditing across the Public Sector (no cost extension period March- May 2012)

In March-May 2012, PARE was finalizing its direct technical assistance to internal audit units within selected public enterprises, along with the Institute of Internal Auditors in BiH (the Institute). In particular, internal auditors employed with the public enterprises Water Supply Utility (“VIK” Zenica) and Central Heating Utility (“Toplana” Banja Luka) were assisted by PARE in conducting their respective first audits: “*Audit of Efficiency of Water Meter Reading*”, and “*Audit of Procedures in Case of Default and Breakdown*”. Both audits stem out from their annual audit plans that have been prepared earlier with PARE’s assistance. The internal auditors from both companies were closely guided by PARE and the Institute in each phase of this audit process, including a review of relevant documents, interviews with the companies’ employees and site visits, and finally assisted in writing the audit reports. The skills gained in this practical exercise were of fundamental importance to the participating internal auditors in their future work.

Toplana’s company director, Mr. Branka Ruzevic and VIK’s company director Kahriman Ekrem highly praised the PARE project for the technical assistance provided to their internal departments (Annexes No.4 and No.5).

Simultaneously, PARE staff was preparing the foundation for several diversified activities in the public sector audit area to be launched in the project’s extension period. The shift was placed to external audit operations in the public sector and targeted anti-corruption assistance. Accordingly, PARE worked with the entity and state Supreme Audit Institutions (SAIs) which conduct external audit to obtain their inputs and perspectives on matters associated with the audit process, including performance and financial audit, government accountability, detection of fraud and other issues while paying attention to USAID mission priorities, SAIs needs, and other donors’ engagement in this area. As a result of this process, PARE’s new focus within the Public Sector Audit (Component 2) in the extension period were organized and broken down into the four respective sub-components: 1) performance audit, 2) improving cantonal and municipal parliamentary accountability, 3) targeted anti-corruption assistance, and 4) cross-cutting initiatives. Following is a breakdown of progress and status in each respective sub-area of the Component 2.

Subcomponent 2.1: Performance Audit

Activity 2.1.1: Conduct Gap Analysis of Performance Audit process with the three Supreme Audit Institutions (SAIs) & Activity 2.1.2: Complete three performance audit case studies

In September 2012, PARE successfully undertook a *gap analysis* of current public sector Performance Audit (PA) process in BiH. Per the definition, performance auditing is an independent and objective examination of government undertakings, systems, programs or organizations, with regard to one or more of the three aspects of economy, efficiency, and effectiveness which aims to lead to improvements performed by an audit office. Five years after the completion of the initial pilot performance audits (PA) in BiH and approximately 30 published reports across the three BiH Supreme Audit Institutions (SAIs) since, it is

time to take stock of the process and assess to what extent PA has been embedded in the public accountability structures and is having desired impact.

Consequently, PARE conducted a series of interviews with the three SAIs, competent parliamentary committees in charge of audit, representatives of relevant media and civil society and other donors and reviewed the applicable legislative framework and relevant SAI documents. As a result, PARE identified a number of critical weak spots and areas for potential improvements in the public accountability framework which are currently diminishing the impact of performance audit outputs in improving the audited systems, programs or operations of the executive government. The second follow-up activity that took place in October-November 2012 flowed naturally from this initial work and it dealt with three completed performance audit reports (one from each SAI), that have served as PARE's case studies and resulted with the *Report on Actions Needed to Improve PA Impact*. These were the following reports: 1) SAI BiH: Management of Costs of Lease of Premises for Operations and Accommodation of Institutions of BiH (2011); 2) SAI FBiH: Management of Primary Health Care in FBiH (2011); and 3) SAI RS: Efficiency of Placement of Incentives for Development of Agriculture (2008) with the follow-up report (2011).

In each respective case study, the PARE reviewed the given performance audit from the inception stage through feedback from auditees on actions taken per recommendations extended by the respective SAI. The case study exercise included extensive review of the reports and documentation pertaining to them, a series of over 30 meetings with SAI staff, members of parliamentary audit committees and audited institutions, as well as representatives of media and civil society. Coupled with the gap analysis, it provided a holistic insight into the current performance audit process and established weak spots in the system that need to be addressed. This activity reconfirmed that despite the perceived high quality of work carried out by the SAIs, their output (i.e. recommendations) are not having the full intended effect. Based on the findings, PARE team provided a set of actionable recommendations (respectively for SAIs, PACs, and auditees) for measures required from the major stakeholders to improve the performance audit process. These recommendations for each respective stakeholder (SAIs, media, and legislators) will be presented at large PARE Conference on Performance Auditing in the Public Sector that is scheduled to take place in May 2013.

PARE continued to transparently share information on its activities with other donors and organizations involved in the performance audit area. In this regard, PARE held several regular coordination meetings with the Swedish National Audit Office (SNAO) representative. The purpose was to provide each other with the updates on upcoming activities involving SAIs and thus avoids overlapping or duplicating efforts in this respective field. In addition, on November 30, 2012 PARE held a meeting with USAID Parliamentary Strengthening Project (PSP) to discuss their involvement with parliamentary audit committees (PACs), particularly within the area of performance audit. PARE sent detailed minutes from the meeting to USAID.

Subcomponent 2.2: Improving Cantonal and Municipal Parliamentary Accountability

With the aim of strengthening the capacity of the public sector institutions, thus implementing an effective system of accountability and increasing the responsiveness of

local/regional government to external public sector audit recommendations, PARE has started the activities aimed at increasing the capacity of authorities in BiH on cantonal and municipal level to implement the recommendations contained in the financial audit reports.

The SAIs have very limited resources at their disposal to monitor developments at regional and local levels between two audits of the same auditee. On the other side, though many cantons and municipalities recurrently receive SAI adverse or qualified opinions, no specific cantonal audit legislation has been identified to allow the cantonal parliaments to penalize audited cantonal institutions which do not enforce audit recommendations.

As the initial step, PARE has developed selection criteria which identified suitable canton/municipalities in both FBiH and RS for the project support in the final year of the project. The elimination criteria and necessary preconditions for the PARE's intervention were (i) existence of a completed audit report and (ii) financial (budget) potential of the selected municipality/canto to serve as a "model" to be replicated across other similar municipalities/cantons in the future.

Following the selection of candidates meeting these prerequisites, evaluation and ranking was done in accordance with the general criteria for evaluation which include: Auditor's opinion; number of recommendations; prepared Action Plan (Program) for Recommendations; number of implemented recommendations; changed auditor's opinion (adverse/qualified into positive); established internal audit function; recommended choice of municipality/canton from independent institutions (SAI and USAID GAP 2); previously received technical assistance (TA), capacity for TA and implementation of project activity, and specific circumstances worth noting for each nominated unit of local/regional government.

Upon the final selection and approval of the USAID Mission in BiH, selected canton/municipalities will receive PARE TA which will result in development of a set of rules and procedures for improved implementation of financial audit recommendations. Upon completion of work with the selected canton/municipalities, PARE will work on dissemination of the best model and practices to other municipalities and cantons in BiH.

Subcomponent 2.3: Targeted Anti-Corruption Assistance

Corruption in Bosnia-Herzegovina is a pressing issue, as it permeates both the public and private sector and hinders progress in the country. There is a legal framework in place, but the institutional capacity of the agencies in charge of fighting corruption and coordination of their efforts remains weak. Therefore, PARE interacted with several institutions whose work may involve identification of fraud and corruption individually (such as the three SAIs and the Agency for the Corruption Prevention) or vulnerability to corruption and conflict of interests (the BiH Agency for Civil Service). Following are the outcomes of each intervention targeting specific institution:

Activity 2.3.1: Analysis of the existing procedures in the SAIs' methodological guidance and practice for identifying fraud and corruption and Activity 2.3.2: Deliver training to selected financial and IT auditors on auditing for Fraud and Corruption

To assist SAIs' efforts to intensify the fight against fraud and corruption from their angle and to help clarify stakeholder and public understanding of their roles and responsibilities,

PARE engaged a consultant to analyze SAI relevant documents and practice addressing this matter.

This work was undertaken by reviewing the relevant chapter of the SAIs' Audit Guide and the other relevant documents, and by having discussions with SAIs and prosecutors.

In addition, a workshop on detection and reporting of fraud and other irregularities for SAIs was delivered on January 29, 2013. This served as an opportunity for financial and IT auditors from the three SAIs to discuss the issues arising and provide some guidance on international experience and best practice. The objectives for the workshop were to discuss several matters including: 1) best audit practice for detecting and reporting errors and irregularities; 2) difference between errors and irregularities; 3) manners of detecting irregularities by audit work; 4) expectations from an investigation by management into potential irregularities; 5) manners of reporting irregularities; 6) the role of the SAIs in the investigation of irregularities.

Activity 2.3.3: Deliver Code of Conduct/ Ethics Training for selected public civil servants

BiH state level Agency for Civil Servants is in charge of training to approximately 3,300 civil servants that have been employed throughout various state level government institutions, of whom nearly 300 represent high ranking civil servants. There is also a requirement of an updated Action Plan for Reform of Public Administration in 2011-2014, stating that the Agency for Civil Service needs to introduce a special standardized anti-corruption and conflict of interest training for the civil servants. Due to drastic funds cut for all training activities in 2012/2013 as well as a lack of skillful personnel and adequate training material, this requirement could not be accommodated by the Agency itself. In its letter addressed to PARE, the Agency requested project's assistance in developing an appropriate training on code of conduct/public sector ethics to encompass several topics including code of conduct/ethics in public administration, professional integrity, conflict of interest and other related topics.

PARE recognized this demand and delivered a basic pilot Code of Conduct training for a selected group of state-level high ranking officials (civil servants) and representatives of SAIs and the Agency for Prevention of Corruption and Coordination of the Combat against Corruption, on December 13-14, 2012. It addressed core ethical issues and several related topics such as (i) conflict of interest, (ii) ethical decision making, (iii) ethical principles, values and norms, and others

In the upcoming period, PARE will develop a full on-line training module on code of conduct/ public sector ethics that will be transferred to ACS as custodian for their future training purposes.

Activity 2.3.4: Provide support to Agency for Corruption Prevention*

(Due to reluctance of SAI coordination Board to sign LOI with the Agency for Corruption and Prevention PARE focused its activities in this regard only on the Agency without the SAIs)

The state level Agency for Prevention of Corruption and Coordination of the Fight Against Corruption (the Anti-Corruption Agency) was formally established in September 2009, meaning that the Parliament of BiH adopted the anti-corruption legislation and the anti-corruption strategy for 2009-2014. Since 2009, the Anti-Corruption Agency was largely

dormant: the Director and his two deputies were appointed in 2011, while the Agency received its own budget for the first time in 2012.

In order to assist the operational work of the Agency, PARE committed to provide (1) an in-kind assistance consisting of furniture and computer equipment and (2) to facilitate the implementation of anti-corruption measures. However, both types of assistance to be provided by PARE are pre-conditioned with the employment of personnel that would make the Agency operational.

In terms of in-kind assistance, all preparatory work has been previously carried out by PARE including identification of best price vendors. PARE has been in regular contacts with the Agency to obtain documented news on hired personnel in order to proceed further on this matter in accordance with USAID instructions. The recruitment procedure has been underway for months and is expected to be finalized in the upcoming months.

In terms of the implementation of anti-corruption measures, PARE identified measure 3.3. from the Strategy (*development of user friendly training anti-corruption materials for civil servants*) as the one which could be accomplished even without full engagement of Anti-Corruption Agency's staff. Accordingly, PARE involved Civil Service Agency' staff in technical facilitation and preparation of on-line code of conduct training. In any regard, such an approach has been mutually beneficial and appreciated by both agencies.

Other activities- Coordination with other projects involved in anti-corruption

In the reporting period, PARE continued to liaise with other projects and organizations involved in anti-corruption efforts such as USAID funded project "Account" network, EU-funded project Strengthening Capacities of BiH Institutions to Combat and Prevent Corruption", BiH "Whistleblowers" (NGO Center for Accountable Democracy) and others.

Subcomponent 2.4: Other cross-cutting initiatives

Activity 2.4.1: Publish updated/new edition of Manual "Internal Audit in Public Sector"

In the capacity of principal editor, PARE reviewed and commented on the new draft Manual on Internal Audit in Public Sector, developed by the Institute of Internal Auditors in BiH. The content of the draft manual has been expanded to encompass an internal audit function across the public sector as a whole. The Institute was given a deadline until the end of March 2013 to amend the draft in accordance with PARE comments.

C. Component 3: Enabling Environment and Cross Cutting Activities

Subcomponent 3.1: Private sector professional associations' capacity strengthened

Activity 3.1.1: Facilitate Establishment of BiH Association of Risk Managers

Following the identified need of the private and public sector professionals to establish Association of Risk Managers and improve the financial and overall BiH business environment through the articulation of common interests and views, exchange of information and knowledge, provision of capacity development and policy reform advocacy, PARE conducted feasibility assessment of its establishment, namely its self-sustainability

and level of commitment from potential external and internal stakeholders.

PARE met with various financial sector risk professionals (mostly from the banking sector¹) who are envisioned to be core members once the Association is established; and organized three focus group sessions in order to present the concept of the Association. For these workshops, PARE developed and presented several relevant documents including an initial mission and vision statement, draft budget plan and forecast needed for establishing and maintaining the Association, SWOT analysis, and proposal of draft work plan for the upcoming period.

The main goals of the proposed Association include:

- serve as a platform for gathering of various professionals employed across the BiH financial sector in order to develop and prepare policy and regulatory recommendations to the relevant regulatory authorities;
- increase capacities of the local professionals across the financial sector;
- enhance cooperation with international professionals and existing regional, EU and global associations which promulgate international standards and practices (Global Association of Risk Professionals – GARP, and Professional Risk Management International Association – PRMIA);
- become a backbone for promotion and implementation of risk principles from all areas of business and education; and
- support the ongoing and future risk-based reforms in the BiH financial sector.

The feasibility assessment has been finalized thus proving that all counterparts unanimously support the idea of establishing the BiH Association of Risk Managers. They also signed an individual commitment statement expressing their buy-in and involvement in the future steps towards legally and formally establishing the Association. As mentioned above, these counterparts are expected to serve as core members once the Association is established, while other professionals including those involved in the leasing, insurance, microcredit organizations and audit sectors along with entity BSAs, CBBH, DIA and Banks Association would join once the Association is established.

In the upcoming period PARE will evaluate the possibility of undertaking the remaining steps towards establishing the BiH Association of Risk Managers.

¹ Representatives of Raiffeisen Bank, UniCredit Bank, Intesa SanPaolo Bank, Sparkasse Bank, Sberbank – both Sarajevo and Banja Luka, and Nova Bank – Banja Luka attended the three focus group sessions.

Subcomponent 3.2: Development Credit Authority (DCA) management

Activity 3.2.1: Administer and increase utilization of the Mission's existing Loan Portfolio Guarantees.

During the reporting period, the following DCA activities/requirements were realized:

- Semi-annual Loan Schedule Reports (periods October 01, 2011 – March 31, 2012 and April 01, 2012 – September 30, 2012) were successfully completed by the BiH DCA LPG partner banks (UniCredit Bank, Volksbank BH, and Raiffeisen Bank BiH), through the USAID Internet-based Credit Management System. The report of the DCA facility in BiH is presented below in the table “DCA LPG Summary as of September 30, 2012”.
- The Annual Certifications of Post-Claim Recoveries (Certifications for Net Recoveries and the Schedules of Net Recoveries) were completed and submitted to the USAID/Washington Office of Development Credit. Two BiH DCA partner banks (UniCredit Bank and Intesa Sanpaolo Bank BiH) certified that there were no recoveries collected subsequent to the Claims paid by USAID while Volksbank BH certified recoveries in the amount of KM 68,172 since the last certification of post-claim recoveries. Volksbank also reimbursed USAID on a pro rata basis (amount of KM 30,572.53) after a deduction of reasonable expenses incurred in its collection efforts. All these annual certifications/recoveries were related to the first BiH DCA program of Loan Portfolio Guarantees.
- The two BiH DCA partner banks (Raiffeisen Bank BiH and Volksbank BH) prepared and submitted the Annual Environmental Compliance Certifications. Both banks reported that in the period of January-December 2012 all local environmental laws were followed within the DCA loan portfolio, there were neither environmental adverse changes nor environmental policy/procedure changes.
- The DCA Checklist Forms on the DCA Portfolio Environmental Changes and Environmental Policy Changes dated April 19, July 13, October 17, 2012 and January 16, 2013 were fulfilled with UniCredit Bank. The Bank reported that there were no changes related to environmental issues.
- A Request for Exception (for a loan amounted KM 3,200,000 app USD 2,156,000) for the company Interwork doo Cazin (production of wood pellets) was submitted by the Volksbank BH. The exception was related to the maximum cumulative principal amount of qualifying loans made to one qualifying borrower (USD 1,500,000) and portion of the loan that was connected with refinancing, repayment or repurchase of an existing loan. The Memorandum on approvability of this request was prepared based on the collected and analyzed documents/reports, site visit of the company and production facility and conversation/discussion with the company's director. The Memorandum was submitted to USAID on January 31, 2013, along with comments and recommendations prepared by the representatives of USAID Fostering Interventions for Rapid Market Advancement (FIRMA) Project, Deputy COP Jasmin Gabela and Wood Sector Specialist Zeljka Knezevic. Approval of this request for exception was issued by USAID on February 8, 2013. The Bank placed the Loan under the DCA coverage on February 27, 2013.

- Six training sessions on the DCA LPG facility in BiH were conducted:
 - for 6 representatives of Volksbank BH dd Sarajevo, on September 4, 2012,
 - for 48 representatives (sales and risk departments) of Raiffeisen Bank BiH, regional branches Sarajevo, Mostar, Zenica and Tuzla, in the period January through February 2013.

The training events aimed to increase the DCA facility utilization, and topics included (i) DCA facility goals and features, (ii) terms, conditions, and functioning of the existing Guarantee Agreements (signed between USAID/Sida and BiH DCA partner banks Volksbank BH and Raiffeisen Bank BiH in September 2010), (iii) examples/explanations for exception and claim cases and (iv) results/experiences of the previous BiH DCA Guarantee program and DCA facility worldwide (more than 300 DCA guarantees in 67 countries) over the last 12 years.

- PARE team (Local consultant and PARE DCA specialist) prepared an assessment report consisting of the (i) identification of the factors constraining DCA partner banks (Volksbank BH dd Sarajevo and Raiffeisen Bank BiH dd Sarajevo) utilization of the existing guarantees and (ii) recommendation of the potential solutions for increasing lending to SMEs under these guarantees. The main recommendations were as follows:
 - Refreshment of the DCA loan product through: (i) revision of the existing DCA loan product definition/description, price and written procedures and (ii) new cycle of training/presentations/promotion of the DCA guarantee facility to account managers, sale and risk managers.
 - Organization of the meetings with the DCA banks' CEOs (attended by USAID) aiming to ensure support for the above stated activities.

Following the above stated recommendations PARE specialist (Muhiba Adanalic) organized:

- Meeting with Raiffeisen Bank BiH on December 17, 2012 in the presence of Cengic Munir (Head of Corporate sales division), Maida Zahirović Salom (Head of Retail product development), Mirela Susko (Head of Corporate Credit Risk division), Mirha Hasanbegovic (Head of Retail sales division), Edina Sentijarevic (Head of SE product development), Haris Uzicanin (CRM Credit Risk Corporate, SE, FI, LRG), and Amira Vejzagic-Ramhorst (USAID EDO)
- Meeting with Volksbank BH on December 20, 2012 in the presence of Edin Karabeg (newly appointed Director), Alexander Dedishchev (Executive Director), Samir Mustafic (Head of Corporate Sales Division), Edina Masic (Deputy of Head of Credit Risk Area) and Amira Vejzagic-Ramhorst (USAID EDO).

The representatives of both banks discussed DCA utilization assessment report findings and expressed their willingness/commitment to increase lending to SMEs under the DCA Guarantees in the remaining period, especially in the next nine months.

- On February 8, 2013, USAID financial sector advisor Sandra Goshgarian visited two DCA banks, Volksbank BH and Raiffeisen BiH, and discussed (i) effects of the global financial crises on these banks and (ii) banks' experiences in utilization of the DCA guarantees.

- As of February 20, 2013 Volksbank BH started to operate under the Sberbank BH dd Sarajevo, as its legal successor after the performed acquisition

DCA LPG Summary as of September 30, 2012 (DCA CMS Data)

	Raiffeisen Bank BiH (1)	Volksbank BH (2)	Total (1+2)	UniCredit Bank
Guarantees				
Number	168-010-007	168-010-008		168-06-005
Start date	9/28/2010	9/28/2010		9/30/2006
End date	9/28/2020	9/28/2020		9/29/2016
Loans (US\$)				
Total	20,000,000	20,000,000	40,000,000	16,000,000
Available	10,000,000	10,000,000	20,000,000	16,000,000
Used	1,651,652	3,804,695	5,456,347	6,027,476
Ending balance	758,664	3,534,414	4,293,078	2,609,940
Total in Arrears	-	-	-	125,023
Portfolio (#Loans)				
# Allowed Loans	3	7	10	38
Agriculture	2		2	17
Wood industry				14
Tourism	1	2	3	7
Metal		2	2	
Other		3	3	
# Claimed Loans				1
Claims (US\$)				
Total	-	-	-	23,121
Paid	-	-	-	23,121
Pending	-	-	-	-
Employment Summary				
Current	55	211	266	402
Planned	20	34	54	91
Loan details Summary				
Average Loan Size (US\$)	647,312	534,314		153,436
Average Tenure (Days)	1575	2229		1662
Fees Summary (US\$)				
Total Fees Paid	39,556	43,045		45,355
Portfolio at Risk				
# Active Loans	2	7	9	23
Total # Loans in Arrears (1+ Days)	-	-		4
Portfolio in Arrears (1+Days)				4.79%
# Loans in Arrears (91+Days)	-	-		2
Portfolio in Arrears (91+Days)				2.91%

Notes:

Volksbank BH/Sberbank BH placed 1 new loan (wood pellets) in the amount of app. USD 2,156,000

Raiffeisen Bank BiH placed 1 new loan (aluminum carpentry) in the amount of app. USD 546,000

D. Training Activity

During the reporting period (March 2012 through March 2013), USAID PARE organized **25** raining programs and public events attended by a total of over **368** participants. These training activities supplemented the project's technical assistance which supports project counterparts in strengthening the regulatory system for financial services, improves the financial administration of public resources, and enhances the environment for private sector investments. Technical trainings to build a capacity of the financial sector institutions complemented the financial regulatory strengthening by increasing partner institutions' ability to implement international standards introduced through the advanced risk-based regulatory framework. In that regard USAID PARE organized a series of the events ranged from seminars, workshops, short courses, and study tours, complemented by professional meetings which took place in BiH and third countries. Through improved procedures and the capacity development based on technical trainings in financial administration of public resources, USAID PARE helped strengthen financial audit in public sector and improve systems for public financial management.

Below is the list of training activities and public events organized during the reporting period.

1. Project Management Principles and Practices for Implementation of Capital Requirement Directive (CRD)/Basel II Workshop (July 23-24, 2012, Sarajevo, BiH)
2. Compliance of Deposit Insurance and Banking Legislation Workshop (August 29, 2012, Sarajevo, BiH)
3. Workshop on Effective Interest Rate, Reference Rates and Financial Services Consumer Protection in BiH (August 30, 2012, Sarajevo, BiH)
4. Banking Supervision Agency Organization and Management Tools (September 13-14, 2012, Sarajevo, BiH)
5. Workshop on Credit Risk Management Implementation (September 26-27, 2012, Banja Luka, BiH)
6. Workshop on Market Risk Implementation – Part 1 (October 29-30, 2012, Konjic, BiH)
7. Financial Coordination Unit - Financial Development Report (October 29-31, 2012, Sarajevo, BiH)
8. Establishment of Risk Manager Association in BiH Roundtable I (December 5, 2013, Sarajevo, BiH)
9. Workshop on Market Risk Management Implementation – Part 2 (December 11-12, 2012, Sarajevo, BiH)
10. Code of Conducts/Ethics Training for Civil Servants (December 13-14, 2012, Vlačić, BiH)
11. Establishment of Risk Manager Association in BiH Roundtable II (December 14, Banja Luka, BiH)
12. Banking Supervision Reform – Credit Risk, and Operational Risk with emphasis on QIS and COREP (December 17-19, 2012, Ljubljana, Slovenia)
13. Financial Coordination Unit-Financial Development Report (December 17, 2013, Igman, BiH)
14. Credit Risk Management Implementation-Part 1 (January 17-18, 2013, Banja Luka, BiH)

15. Deposit Insurance Agency Premium Model 1 (January 21-22, 2013, Banja Luka, BiH)
16. Workshop on Decree Revisions (January 22-23, 2013, Sarajevo, BiH)
17. Meeting with BSAs Management (January 24, 2013, Mostar, BiH)
18. Credit Risk Management Implementation-Part 2 (January 28-29, 2013, Konjic, BiH)
19. Detection and reporting of fraud and other irregularities(January 29, 2013, Sarajevo, BiH)
20. Financial Coordination Unit-Financial Development Report (January 29-31, 2013, Sarajevo, BiH)
21. Code of Conduct Award Ceremony (February 4, 2013, Sarajevo, BiH)
22. Joint Workshop on Establishment of Risk Management Association (February 14, 2013, Sarajevo, BiH)
23. Series of DCA LPG trainings (6) were conducted for the representatives of Volksbank BH and Raiffeisen Bank BiH, in the period September 4, 2012 and January through February 2013, respectively
24. Workshop on Own Funds Decree (February 19, 2013, Vlačić, BiH)
25. Financcail Coordination Unit-Finalization of Financial Development Report (February 28, 2013, Sarajevo, BiH)

E. Other Program Activities

Project Website

The project website continues to provide a high level of project visibility and to inform the broader public of progress within the three project components, including the highlights from the training sessions and public events. Additionally, the PARE website has sections containing a photo gallery with photos from various project trainings/events. The project web site address is www.usaidpare.ba.

F. PARE's Participation in Select Major Events

- In March 2012, PARE representative participated in an internal audit seminar “News that Internal Auditor Should Know...”, hosted by the Institute of Internal Auditors (IIA) in Mostar, and presented project’s internal audit activity to the public enterprises. Other presenters included officials from the F BiH Central Harmonization Unit, BiH Agency for Public Procurement, and the IIA.
- In May 2012, PARE team participated in the 7th International Central and Eastern Europe Conference of Internal Auditors, Sarajevo organized by Institute of Internal Audit (IIA) of BiH. The conference was attended by the participants from Croatia, Serbia, Austria, Macedonia, Turkey, Slovenia, the Netherlands, Cyprus, and Bulgaria.
- In June 2012, PARE co-funded and supported the USAID FIRMA project in organizing a regional conference on “Access to Finance”, Sarajevo, hosting over 200 financial sector professionals from the region.
- In October, 2012 PARE staff participated in the 7th International Conference of the Sarajevo Stock Exchange which covered topics related to enlargement of the

capital markets in the region, results of a corporate governance in FBiH research, status, and needs of capital markets in FBiH and presentation of the Strategy for development of the financial markets in FBiH 2012-2021.

- In November 2012, PARE participated in the Annual Meeting of Banks and Financial Institutions, Sarajevo, where CBBH, BSA's, and IMF representatives discussed recent developments in the banking industry and relevant regulations.
- In November 2012, PARE participated in Thematic Conference on the topic of "Support of the justice sector to economic development of Bosnia and Herzegovina" (sponsored by USAID JSDPII), where relevant aspects of regulations were discussed from the judiciary point of view.
- In December, 2012, PARE M&E Specialist and HO Director participated in AgriFin's webinar, "Introducing USAID's Agricultural Lending Toolkit" by Lawrence Camp, Division Chief with USAID's Economic Growth, Education, and Environment Division.
- PARE staff participated in several events organized by other projects/organizations involved in the area of targeted anti-corruption assistance : 1) a kickoff event on Strengthening the capacities of BiH institutions to combat and prevent corruption Project (October 16, 2012; then a founding assembly of the USAID funded anti-corruption network "Account" project (Nov. 19, 2012); and the presentation of Draft Legislation of Whistleblower protection by the NGO Center for Responsible Democracy (Feb. 26, 2013).
- In February 2013, PARE participated in the round table „Way to Recover: Active employment measures as a response to the economic crises“ organized by the Centre for Policy and Governance (CPU) of BiH.

SECTION IV. CONSOLIDATED PERFORMANCE MANAGEMENT REPORT

PARE's activities, performance and progress achieved in the reporting period, were measured on the basis of the Extension Period Performance Monitoring Plan (October 25, 2012).

No	Indicator	(1) Actual	(2) Planed Targets/ Milestones	(3) Ratio
	Explanation			(1)/(2)
1	Level of counterpart satisfaction with the quality of the technical assistance and deliverables	4.61	4	115%
2	Number of financial-sector supervisors trained with USG assistance (F Indicator 1)	241	181	133%
3	Number of financial-sector professionals trained on international standards this year with USG assistance (F Indicator 2)	92	102	90%
4	Number of individual banking supervision decrees adopted by the BSAs governing boards/parliaments	-	3	-
5	Progress toward implementation of banking supervision regulatory framework that promotes convergence at the state level (Milestones)	2	4	50%
6	Progress toward strengthening of the insurance regulation consistent with IAIS and pertinent EU requirements (Milestones)	1	3	33%
7	Level of DIA compliance with IADI Principles and EU standards in deposit insurance increased (Milestone)	2.6	4	66%
8	Risk based premium pilot model developed/ DIA staff trained on its content (yes/no)	-	1	-
9	Progress toward improved compliance with EU Consumer Loan Directive (Milestones)	1	2	50%
10	Set of recommendations for relevant policy, procedural, operational, legislative and/or other changes to enhance the utilization of performance audit reports developed and disseminated to relevant stakeholders (yes/no)	1	1	100%
11	Number of national legislators and national legislative staff attending USG sponsored training or educational events (F Indicator 3)	-	8	-
12	Number of NGO/Media professionals trained on the effective utilization of performance audit reports	-	8	-
13	Set of administrative/operational procedures developed and disseminated for selected municipal/cantonal authorities to ensure better implementation of financial audit reports	-	2	-
14	Number of government officials receiving USG-supported anti-corruption training (F Indicator 4)	35	45	78%
15	Number of anti-corruption measures from the State strategy for Combating Corruption (2009-2014), implemented by the Agency for Corruption Prevention, with PARE support	-	2	-
16	BiH Association of Risk Managers established as per standard BiH association registration requirements (yes/no)	-	1	-

SECTION V. ADMINISTRATION AND PROJECT MANAGEMENT

After completion of the project's original four-year mandate PARE's core team of long-term technical staff continued to implement its demand-driven approach and broad scope of work, during its no-cost extension (through June 4, 2012) and costed extension period. This core team, located in Sarajevo, is complemented by the short-term technical assistance from local and international specialists who provide a range of specific technical expertise in a targeted and cost-efficient manner. The project field office team is supported by a project management unit (PMU) in Chemonics' home office.

The PARE COP Berina Selimovic-Mehmedbasic manages overall implementation of project activities, relationship-building with counterparts, and the monitoring of project results. Each member of the core team including Slavisa Rakovic (Economic Specialist), Edis Brkic (Regulatory Lawyer), and Mirnesa Bajramovic (Public Administration Specialist), is assigned two or three specific activities across project components. In addition, Muhiba Adanalic (DCA/M&E Specialist) manages USAID's DCA portfolio and works with the core team to monitor project performance against the established indicators. Amra Softic (Communications and Training Specialist) focuses primarily on administration of training and communication activities. Sanin Muftic (Office Manager/Accountant) oversees the operations of this team. The administrative staff is responsible for the project's administrative, logistical, accounting, and compliance functions. The core project team is assisted by interns Aida Bulbul and Amar Brkan.

With PARE's broad scope and specialized needs, short-term consultants are important resources. These consultants provide expert assistance to help effectively implement the project's objectives with the project counterparts. To provide consistency, in some cases PARE has identified expatriate and local short-term consultants who can provide intermittent technical assistance in their relevant areas of expertise. This support, from a variety of experts, helps the project to maintain the momentum necessary to achieve results in an extremely broad range of financial services technical areas. The PMU maintains a roster of highly qualified local and expatriate consultants who can provide targeted technical assistance in an extensive range of technical areas.

The project is backstopped by the home-office PMU which assists with recruiting and fielding short-term specialists, budgeting, technical/contractual reporting, contract compliance, and administrative and technical support. The PMU provides support to the field to navigate USAID regulations and comply with reporting requirements.

SECTION VI. ANNEXES

Annex 1 - Detailed PMP

Annex 2 - List of Counterparts

Annex 3 - Training Activity Summaries

Annex 4 - Letter from Toplana a.d. Banja Luka

Annex 5 - Letter from J.P. Vodovod i Kanalizacija Zenica

Annex 6 - Letter from Agencija za osiguranje depozita BiH

Annex 7 - Letter from Agencija za osiguranje u Bosni i Hercegovini

Annex 1 – DETAILED PMP REPORT

Indicator 1

Level of counterpart satisfaction with the quality of the technical assistance and of deliverables (satisfaction is rates from 1-5)

Results Summary

Extension Result	4.61	Extension Target	4
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The indicator on counterpart satisfaction was calculated using the submitted evaluations of the seminars/workshops/study tours on:

- 1) Compliance of the Legislation in DIA and Banking Supervision, August 29, 2012
(Qualitative indicator = 4.81)
- 2) Effective Interest Rate and Consumer Protection in BiH, August 30, 2012
(Qualitative indicator = 4.70)
- 3) Credit Risk Management Implementation, September 26-27, 2012
(Qualitative indicator = 4.95)
- 4) Market Risk Implementation (Part 1), October 29-30, 2012
(Qualitative indicator = 3.63)
- 5) Letter of satisfaction from Deposit Insurance Agency, November 5, 2012
(Qualitative indicator = 5.00)
- 6) Market Risk Implementation (Part 2), December 11-12, 2012
(Qualitative indicator = 4.73)
- 7) Code of Conducts for Public Civil Servants, December 13-14, 2012
(Qualitative indicator = 4.60)
- 8) Credit and Operational Risks with emphasis on QIS and COREP (study tour Slovenia), December 17-19, 2012
(Qualitative indicator = 4.92)
- 9) Credit Risks Management Implementation (Part 1), January 17-18, 2013
(Qualitative indicator = 4.82)
- 10) Credit Risks Management Implementation (Part 2), January 28-29, 2013
(Qualitative indicator = 4.77)
- 11) Detection and reporting of fraud and other irregularities, January 29, 2013
(Qualitative indicator = 4.40)
- 12) Own Funds Decree, February 19-18, 2013
(Qualitative indicator = 3.94)

Indicator 2

Number of financial-sector supervisors trained with USG assistance (**F Indicator 1**)

Results Summary

Extension Result	241	Extension Target	181
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In total 241 supervisors attended the following events organized by the PARE project:

Workshops

- Banking Supervision Agency Organization and management Tools - September 13-14, 2012
- Project Management Principles and Practices for Basel II/III Implementation - July 23-25, 2012
- Compliance of the Legislation in Deposit Insurance and banking Supervision - August 29, 2012
- Effective Interest Rates and Consumer Protection in BiH – August 30, 2012
- Credit Risk Management Implementation Issues - September 26-27, 2012
- Market Risk Implementation – October 29-30, 2012

- Development of the Risk-Based Deposit Insurance Premium Pilot Model - November 5-8, 2012
- Market Risk Implementation (Part 2), December 11-12, 2012
- Credit Risks Management Implementation (Part 1), January 17-18, 2013
- Risk based premium model development, January 21-22, 2013
- Decree Revisions (3), January 22-23, 2013
- Credit Risks Management Implementation (Part 2), January 28-29, 2013
- Own Funds Decree, February 19-18, 2013

Study Tour

- Credit and Operational Risks with emphasis on QIS and COREP (Slovenia) December 17-19, 2012

The Participants included 101 men and 140 women from the following institutions:

- 220 from entity BSAs (142 from FBA and 78 from RSBA)
- 8 from CBBH
- 13 from DIA

Indicator 3

Number of financial-sector professionals trained on international standards this year with USG assistance (**F Indicator 2**)

Results Summary

Extension Result	92	Extension Target	102
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In total 92 professionals attended the following events organized by the PARE project:

Workshops

- Compliance of the Legislation in Deposit Insurance and banking Supervision- August 29, 2012
- Effective Interest Rates and Consumer Protection in BiH - August 30, 2012
- Preparation of the Financial Development Report - October 29-31, 2012, December 17, 2012 and January 30-31, 2013
- Establishment of BiH Association of Risk Managers, February 14, 2013

Trainings

- DCA LPG facility – Volksbank BH, September 4, 2012
- DCA LPG facility – Raiffeisen Bank BiH, January 23, 24, 2013 and February 12, 14, 15, 2013

Round-Tables

- Establishment of BiH Association of Risk Managers, December 5, 14, 2012

The Participants included 42 men and 50 women from the following institutions:

- 3 from Banks Association
- 80 from banks
- 9 from MFT (FCU)

Indicator 5

Progress toward implementation of banking supervision regulatory framework that promotes convergence at the state level

Milestones include:

- (1) Project management guidelines developed and delivered to BSAs,
- (2) 2008 Basel II/CRD strategy updated and adopted,
- (3) Quantitative Impact Study (QIS) completed,
- (4) Pillar I decrees final drafts disclosed and posted on each BSA's Website

Results Summary

Extension Result	2	Extension Target	4
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PARE developed Guidelines on Project Management Framework in Supervisory Institutions (August 2012) after two working sessions/workshops and delivered to BSAs on September 14, 2012
2008 Basel II/CRD Strategy was updated and adopted by both BSAs on February 27, 2013

Indicator 6

Progress toward strengthening of the insurance regulation consistent with IAIS and pertinent EU requirements. Milestones include:

- (1) Identification of legal gaps,
- (2) Amendments to regulations (entity laws on insurance) developed for adoption
- (3) Amendments presented to the insurance agencies

Results Summary

Extension Result	1	Extension Target	3
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Legal gaps were identified through preparation of the “Assessment Report – Findings and Recommendations” (January 2013) where description of the current status of the insurance supervision sector in BiH in relation to compliance with EC Solvency II / IAIS standards was provided aligned with the recommendations for the next steps.

Indicator 7

Level of DIA compliance with IADI Principles and EU standards in deposit insurance.

Milestones include:

- (1) respective legislation including law on DIA, FBiH Banking Law and RS Banking Law to introduce standards 1, 16 and 17 identified,
- (2) amendments to increase compliance of the legislation developed,
- (3) amendments presented to the counterparts,
- (4) amendments submitted to the parliaments

Results Summary

Extension Result	2.6	Extension Target	4
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DIA increased compliance with IADI Principles and EU standards 1 and 16, precisely all 4 milestones were achieved for these two principles/standards
(Calculation: 3 standards x 4 milestones = 12, achievement of 2 standards x 4 milestones = 8, $8/12=66\%$, 4 milestones x 66% = 2.6)

Indicator 9

Progress toward improved compliance with EU Consumer Loan Directive.

Milestones include:

- (1) effective interest rate calculation methodology, compliant with EU directive, proposed to BSAs and CBBH,
- (2) model for introducing reference rates developed and proposed to BSAs and CBBH

Results Summary

Extension Result	1	Extension Target	2
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PARE produced the report “Effective Interest rate as Part of Consumer Protection in BiH” and presented the methodology for calculation and dissemination of the effective and reference interest rates, relevant EU Directives and methodology to the project counterparts in BSAs, BA, DIA and CBBH, during the workshop held in August, 2012

Indicator 10

Set of recommendations for relevant policy, procedural, operational, legislative and/or other changes to enhance the utilization of performance audit reports developed and disseminated to relevant stakeholders (yes/no) .

Results Summary

Extension Result	1	Extension Target	1
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In November 2012, PARE developed set of performance audit recommendations and disseminated them to SAIs and Parliamentary Audit Committees (entity and state level)

Indicator 14

Number of government officials receiving USG-supported anti-corruption training
Government officials include, but are not limited to, SAIs auditors and staff from state level ministries and agencies

Results Summary			
Extension Result	35	Extension Target	45

In total 35 government officials (17 SAI auditors and 18 civil servants from state level ministries and agencies) attended the following trainings organized by the PARE project:

- Code of Conducts for Public Civil Servants, December 13-14, 2012
- Detecting fraud and irregularities, January 29, 2013

Annex 2 – LIST OF COUNTERPARTS
PIR 1: Regulatory System for Financial Services Sector Strengthened

KRA 1.1: Banking supervision

Institution	Town	Address	Tel/Fax	Web site
Banking Agency of the Federation of Bosnia and Herzegovina Agencija za bankarstvo Federacije Bosne i Hercegovine (FBA)	Sarajevo	Koševo 3	033 721 400	www.fba.ba
Banking Agency of the Republic of Srpska Agencija za bankarstvo Republike Srpske (ABRS)	Banja Luka	Vase Pelagića 11 A	051 218 111 051 216 665	www.abrs.ba
Ministry of Finance of the Federation of Bosnia and Herzegovina Ministarstvo finansija Federacije BiH	Sarajevo	Mehmeda Spahe 5	033 253 400	www.fmf.gov.ba
Ministry of Finance of Republic of Srpska Ministarstvo finansija Republike Srpske	Banja Luka	Trg Republike Srpske 1	051 339 155 051 339 645	www.vladars.net

KRA 1.2: Financial Coordination Unit

Institution	Town	Address	Tel/Fax	Web site
Ministry of Finance and Treasury of Bosnia and Herzegovina Ministarstvo finansija i trezora Bosne i Hercegovine	Sarajevo	Trg BiH 1	033 205 345 033 202 930	www.trezorbih.gov.ba

KRA 1.3: Insurance supervision

Institution	Town	Address	Tel/Fax	Web site
Insurance Agency of Bosnia and Herzegovina Agencija za osiguranje u Bosni i Hercegovini	Sarajevo	Obala Kulina Bana 4/II	033 554 795 033 554 796	www.azobih.gov.ba
Insurance Supervisory Agency of the Federation of Bosnia and Herzegovina Agencija za nadzor osiguranja Federacije Bosne i Hercegovine	Sarajevo	Kolodvorska 12	033 610 897 033 611 114	www.nados.ba
Insurance Agency of the Republic of Srpska Agencija za osiguranje Republike Srpske	Banja Luka	Bana Milosavljevića 8/II	051 228 910 051 228 920	www.azors.org

KRA 1.4: Deposit Insurance Agency

Institution	Town	Address	Tel/Fax	Web site
Deposit Insurance Agency of Bosnia and Herzegovina (DIA) Agencija za osiguranje depozita Bosne i Hercegovine	Sarajevo	Jadranska bb	033 226 323 033 220 308	www.aod.ba
	Banja Luka	Vase Pelagića 11a	051 223 440 051 223 452	

KRA 1.5: Central Bank

Institution	Town	Address	Tel/Fax	Web site
Central Bank of Bosnia and Herzegovina (CBBH) Centralna Banka Bosne i Hercegovine	Sarajevo	Maršala Tita 25	033 278 201 033 201 517	www.cbbh.ba

PIR 2: Financial Administration of Public Resources Improved

KRA 2.1 Performance Audit

Institution	Town	Address	Tel/Fax	Web site
Audit Office of the Institutions of Bosnia and Herzegovina Ured za reviziju institucija Bosne i Hercegovine	Sarajevo	Hamdije Čemerlića 2/XIII	033 703 573 033 703 565	www.revizija.gov.ba
Audit Office for the Institutions of the Federation of Bosnia and Herzegovina Ured za reviziju institucija u Fedearciji Bosne i Hercegovine	Sarajevo	Ložionička 3	033 723 550 033 716 400	www.saifbih.ba
The Supreme Office for the Republic of SrpskaPublic Sector Auditing Glavna služba za reviziju javnog sektora Republike Srpske	Banja Luka	Vuka Karadžića 4	051 247 408 051 247 497	www.gsr-rs.org

KRA 2.2 Improving Cantonal and Municipal Parliamentary Accountability

Institution	Town	Address	Tel/Fax	Web site
Audit Office for the Institutions of the Federation of Bosnia and Herzegovina Ured za reviziju institucija u Fedearciji Bosne i Hercegovine	Sarajevo	Ložionička 3	033 723 550 033 716 400	www.saifbih.ba
The Supreme Office for the Republic of SrpskaPublic Sector Auditing Glavna služba za reviziju javnog sektora Republike Srpske	Banja Luka	Vuka Karadžića 4	051 247 408 051 247 497	www.gsr-rs.org

KRA 2.3 Targeted Anti –corruption Assistance

<i>Institution</i>	<i>Town</i>	<i>Address</i>	<i>Tel/Fax</i>	<i>Web site</i>
Agency for the Prevention of Corruption and Coordination of the Fight against Corruption Agencija za prevenciju korupcije I koordinaciju borbe protiv korupcije	Istocno Sarajevo	Nikole Tesle bb	057 342 799 057 342 799	www.apil.ba
Civil Service Agency Agencija za drzavnu sluzbu	Sarajevo	Trg Bosne i Hercegovine 1	033 284 716 033 284 710	www.ads.gov.ba

KRA 2.4 Other cross-cutting initiatives

<i>Institution</i>	<i>Town</i>	<i>Address</i>	<i>Tel/Fax</i>	<i>Web site</i>
IIA Institute of internal auditors of Bosnia and Herzegovina Institut internih revizora Bosna i Hercegovina	Sarajevo	Dolina 2/II, Marijin Dvor	033 251 700 033 251 701	www.interni-revizori.info

PIR 3: Enabling Environment and Cross – Cutting Activities

KRA 3.1: Private sector professional associations' capacity

<i>Institution</i>	<i>Town</i>	<i>Address</i>	<i>Tel/Fax</i>	<i>Web site</i>
Raiffeisen Bank Bosna i Hercegovina dd Sarajevo	Sarajevo	Zmaja od Bosne bb	033 755 000 033 213 851	www.raiffeisenbank.ba
Sparkasse Bank dd Sarajevo	Sarajevo	Zmaja od Bosne 7	033 280 300 033 280 230	www.sparkasse.ba
Intesa Sanpaolo Banka Bosna i Hercegovina dd Sarajevo	Sarajevo	Obala Kulina bana 9	033 497 512 033 497 592	www.Intesa sanpaolo banka .ba
Sberbank BH dd Sarajevo	Sarajevo	Trg Fra. Andjela Zvizdovica 1	033 295 601 033 263 832	www.sberbank.ba
Sberbank ad Banja Luka	Banja Luka	Jevrejska ulica 71	051 241 100 051 213 391	www.sberbankbl.ba
UniCredit Bank dd Mostar	Mostar	Kardinala Stepinca 88	036 241 100 036 213 391	www.unicredit.ba
Nova banka ad Banja Luka	Banja Luka	Kralja Alfonsa XIII 37 a	051 333 300 051 217 256	www.novabanka .com

KRA 3.2: Development Credit Authority (DCA) Management

Institution	Town	Address	Tel/Fax	Web site
Raiffeisen Bank Bosna i Hercegovina dd Sarajevo	Sarajevo	Zmaja od Bosne bb	033 755 000 033 213 851	www.raiffeisenbank.ba
Sberbank BH dd Sarajevo	Sarajevo	Trg Fra. Andjela Zvizdovica 1	033 295 601 033 263 832	www.sberbank.ba
UniCredit Bank dd Mostar	Mostar	Kardinala Stepinca 88	036 241 100 036 213 391	www.unicredit.ba

Annex 3 – TRAINING ACTIVITY SUMMARIES

Project Management Principles and Practices for Implementation of Capital Requirement Directive (CRD)/Basel II Workshop

July 23-24, 2012

Sarajevo, BiH

USAID PARE hosted a workshop on project management principles and practices for implementation of Capital Requirement Directive (CRD)/Basel II requirements. The purpose of this workshop was to help the supervisors from the Banking Supervision Agencies (BSAs) of both entities of BiH and banking supervision Coordinators from the Central Bank of BiH with project management principles. The learned skills will help the organizations implement an institutional framework for effective supervision consistent with CRD/Basel II. This workshop is the next step in strengthening supervisory capacity for implementing bank capital reform process that will be followed up by two additional workshops (Sep.-Oct.) on the project management manual and particular issues of project implementation.



USAID PARE hosts a workshop on project management principles and practices for implementation of capital requirement directive (CRD)/Basel II, July, 2012

Compliance of Deposit Insurance and Banking Legislation Workshop

August 29, 2012

Sarajevo, BiH

USAID PARE organized workshop sessions on compliance of deposit insurance and banking supervision legislation for BiH financial sector implementing partners including the Deposit Insurance Agency of BiH, Banking Supervision Agencies (BSAs), Central Bank of BiH (CBBH), and the Banks Association. The workshop was focused on existing regulatory gaps between banking supervision and the deposit insurance regulation and recommendations for its strengthening and increased compliance with the pertinent EU Directive. A common understanding of regulatory gaps and potential solutions was achieved during the workshop, leading to a clear conclusion that an inter-agency working group is the most effective way to make substantial progress in creating a functioning financial safety net. USAID PARE held follow up meetings with the Federation BSA and private sector to discuss next steps and all participants are ready to move forward with the working group.



USAID PARE delivers sessions on compliance of deposit insurance and banking supervision legislation and the methodology for calculation and dissemination of effective interest rate aligned with the EU directive in workshops with the CBBH, banking supervision regulators, deposit insurance agency and the private banking sector representatives, September, 2012

Workshop on Effective Interest Rate, Reference Rates

and Financial Services Consumer Protection in BiH

August 30, 2012

Sarajevo, BiH

On August 30, 2012, PARE organized a workshop on effective interest rates and reference rates as well as financial services consumer protection. The workshop presented the assessment of the methodology for calculation and dissemination of effective interest rates, relevant EU directives and the methodology to the project counterparts in CBBH, BSA's, DIA and BA. The presentation addressed gaps between present regulation and EU Directives, and state of effective interest rate implementation in the RS and FBiH. The consultants also presented the range of options for the introduction of a reference interest rate in BiH as well as criteria for selection of proper approach, best adapted to local financial circumstances. The workshop resulted in a common understanding of the needs for further methodological improvements and necessity to establish the working group, which is expected to come out with a unified (across RS and FBiH) methodology for calculation of effective interest rate as well as with reference interest rates in line with the consumer protection objectives.



USAID PARE delivers session on effective interest rates, reference rates and financial services consumer protection with the CBBH, banking supervision regulators, deposit insurance agency, banks association and private banking sector representatives, August, 2012

Banking Supervision Agency Organization and Management Tools

September 13-14, 2012

Banja Luka, BiH

USAID PARE presented a two-day training workshop to the supervisors from the BSAs to discuss theoretical and practical aspects of project management and supervisory disclosures issues. The first day of the workshop focused on the approaches and processes involved in development and management of projects relevant to implementing banking supervision and Basel II/CRD reforms. The second day of the workshop focused on different issues within the task of Supervisory Disclosures including the legal requirements of the Basel II/CRD reform package. In particular, the workshop discussed preparation of project plans, allocation of roles and responsibilities, decision making on different hierarchical levels, and project reporting. Implementation of these approaches will help the BSAs to accelerate progress, enhance overall institutional capacity, and create guidelines for sequential planning within the banking supervisory institutions while coordinating with the BSAs' medium-term strategy on Basel II/CRD implementation. The participants acquired working knowledge on the content of supervisory disclosures as well as practical experiences and guidance on web-based solutions the maintenance process, and similar user issues. The participants were also advised that the BSAs may start implementation of the working version of the proposed Supervisory Disclosure package relevant to the CRD implementation in BiH. Implementation of the package will serve as an indicator of progress of CRD implementation in BiH.



The workshop participants discuss aspects of project management in implementation of Basel II/CRD reforms, September, 2012

Workshop on Credit Risk Management Implementation

**September 26-27, 2012
Banja Luka, BiH**

USAID PARE delivered a two-day workshop analyzing issues associated with credit risk management and implementation of the Basel II regulatory framework for BSA supervisors. The workshop participants acquired practical working knowledge of the credit risk assessment process and management methods and how to translate them into the Basel II framework as stipulated by the draft decrees (including Decree on Credit Risk under the Standardized Approach, Decree on Credit Protection, Decree on the Recognition of External Credit Assessment Institutions, Decree on Capital Adequacy) that were developed with USAID PARE's technical assistance. The workshop covered topics related to credit risk assessment techniques, the Basel II Standardized

Approach to credit risk management, credit risk mitigation, methods used in credit rating and scoring, legal and practical issues related to external credit assessment institutions, and regulatory reporting standards under the EU Capital Requirements Directive. Additionally, during the workshop sessions, participants reviewed sample spreadsheets demonstrating application of credit risk management as required by the regulatory framework and illustrating how it works in practice. At the same time, participants were presented with the aspects of regulatory reporting under the EU CRD, focusing on reporting requirements under the COREP (Common Reporting Framework).



USAID PARE hosts a workshop on issues related to implementation of credit risk management regulatory framework, September, 2012

Workshop on Market Risk Implementation – Part I

**October 29-30, 2012
Konjic, BiH**

To strengthen capacity to implement capital reform in banking in BiH, USAID PARE presented a two-day workshop from October 29-30, 2012. Supervisors from both entity-level BSAs as well as representatives of the CBBH attended and discussed the theoretical and practical aspects of managing implementation of the new risk-based banking supervision regulations, and particularly the decree on Market Risk. Participants were presented with various components and examples of the supervisory review process and how it works in practice. Reporting requirements under the COREP (Common Reporting Framework) were also covered, including a detailed explanation of and guidelines for the COREP component of market risk. This is the first of six capacity building events for banking supervisors that the USAID PARE project has planned on market risk topics relevant to implementation of risk-based banking supervision regulation compliant with the core Basel II. The events will cover capital standards, supervisory review, market discipline based on enhanced transparency, and disclosure.



USAID PARE presents a two-day workshop on market risk implementation issues, October, 2012

Financial Coordination Unit – Financial Development Report

October 29-31, 2012
Sarajevo, BiH

Following extensive trainings that USAID PARE presented to implementing partner professionals of the Financial Coordination Unit (FCU) of the BiH Ministry of Finance and Treasury (MFT) in 2011, USAID PARE's extension period assistance is focused on facilitation of the preparation of the BiH Financial Development Report (FDR) for 2012 and building the capacity of the FCU in order to meet this goal. The purpose of the FDR is to analyze the most recent developments and trends in the BiH financial sector and offer an objective basis for making forward looking BiH financial sector policy decisions. During an October 29-31, 2012 workshop USAID PARE presented the structure and guidelines for preparation of this report. Members of the FCU attended and discussed the recent financial regulatory advances in the EU and identified gaps between BiH and EU financial sector legislation. Critical areas of the BiH financial sector including banking, insurance, securities markets and investment funds, leasing, micro-credit organizations and consumer protection were covered. Data sources and analytical approaches recommended for the report were also discussed. USAID PARE, in collaboration with FCU, will continue to facilitate the finalization of the first draft of the Financial Development Report in early 2013.

„ Translation of attained knowledge and skills in the Financial Development Report is a next value added step to create a better BiH financial sector policy developments and coordination. For the members of the FCU this is a great professional challenge that requests a whole range of individual expertise and persistence to be actioed. On behalf of the FCU and MFT I would like to take this opportunity to extend our thanks to the technical assistance that the PARE project team members along with its consultant provided to us in this regard“ -Biljana Tabakovic, a member of the FCU

Market Risk Management Implementation - Part 2

December 11-12, 2012
Sarajevo, BiH

On December 11-12, 2012 more than 25 participants attended USAID PARE's two-day workshop: "Market Risk Management Implementation Issues". Participants included reform coordinators, bank supervisors and technical experts/specialists from the Banking Supervision Agencies (BSAs) of Federation and Republika Srpska and the Central Bank of BiH. The workshop delivered presentations on market risk assessment techniques, quantitative methods of market risk assessment (assessment of volatility, correlations, Value at Risk, Expected Shortfall), Basel II Standardized Method, Basel II Internal Models Method (including an introduction to historical simulation, analytical approach, and Monte Carlo simulation), issues concerning Pillar 2 of Basel II (interest rate and related market risks in the banking book, back-testing and stress testing), and regulatory reporting standards under EU Capital Requirements Directive. Additionally, the workshop participants acquired a working knowledge of the key concepts involved in market risk assessment and management with respect to the draft Decree on Calculation of Market Risk Capital Requirements for Banks within the Basel II framework. The workshop presented several examples of applications of basic and advanced theoretical concepts and how they work in practice as well as practical examples of COREP reporting standards for market risk.



USAID PARE presents a two-day workshop on market risk management, December, 2012

Code of Conduct/Ethics Training for Civil Servants

December 13-14, 2012

Vlašić, BiH

Recognizing the importance of ethical conduct in strengthening the professionalism, reliability and predictability of the civil service in BiH, USAID PARE supported the activities of the Civil Service Agency of BiH by organizing a two-day workshop on Public Sector Ethics and Code of Conduct on December 13-14, 2012. The workshop was provided to 21 high-ranking civil servants from the BiH public sector institutions including the BiH state level Agency for Civil Servants, the State Agency for Corruption Prevention and Coordination of Combat against Corruption, and the Supreme Audit Institutions in BiH. The workshop focused on building

competencies for recognizing and solving ethical dilemmas and managing conflicts of interest while taking into account the relevant existing and forthcoming BiH legislation related to public service sector. Additionally, the workshop highlighted the importance of ethical guidance and in particular the importance of codes of conduct and effective enforcement to ensure the integrity and effectiveness of the public service sector. Effective corruption prevention requires organizations and civil servants with broad ethical competencies to help prevent misconduct and corruption in public administration. The workshop also discussed real-life cases and ethics management best practices from the EU and OECD countries.



USAID PARE presents a code of conduct/ethics training for civil servants, December, 2012

Banking Supervision Reform – Credit Risk, and Operational Risk with specific emphasis on QIS and COREP

December 17-19, 2012

Ljubljana, Slovenia

USAID PARE, in cooperation with the Center for Excellence in Finance, organized a three-day tailored program in Ljubljana for fifteen reform coordinators, bank supervisors and technical experts/specialists from the Banking Supervision Agencies (BSAs) of Federation and Republika Srpska to study practical aspects of implementation of the regulations that comprise the new risk-based supervisory framework (Basel II Framework for BiH). The overall goal of this study tour was to enable the participants from the BSAs to take a more

proactive role in implementing the decrees and regulations included in the regulatory framework. In particular, this Slovenia-based training provided a unique opportunity for the participants to learn about and exchange views on procedures related to the implementation of the credit and operational risk issues with a specific emphasis on QIS (Quantitative Impact Study) and COREP (Common Reporting Framework).



Participants on Slovenia Study Tour, December, 2012

Credit Risk Management Implementation-Part 1

January 17-18, 2013

Banja Luka, BiH

Over 45 banking supervisors and regulators attended a USAID PARE's two-day regulatory training on credit risk management. This training delivered technical details and practical examples for implementation of the standardized approach to calculation of capital charge for credit risk under the Basel II framework. The theoretical position was compiled with practical issues that emerged in the implementation of the same standard in Croatia. Since Basel II is soon to be replaced by Basel III in the EU, the training included up-to-date information on the changes that implementation of Basel III is going to make in the area of credit risk.



USAID PARE presents a workshop on credit risk under the Basel II framework, January, 2013

Deposit Insurance Agency Premium Model – 1

January 21-22, 2013

Banja Luka, BiH

USAID PARE met with the Deposit Insurance Agency staff to test a pilot risk-based deposit insurance premium model and train them on how use this model when it is determined to be appropriate.

Meeting with BSAs Management

January 24, 2013

Mostar, BiH

USAID PARE organized a meeting for the management and directors of the banking supervision agencies and the Central Bank of BiH to discuss the issues related to project management in banking supervision, organization, and implementation of pilot Quantitative Impact Study (QIS) for BiH as well as specific decrees (including confidentiality legislation, remuneration policies for banks and qualifying criteria for members of supervisory boards of banks) being developed for adoption. The results of a comprehensive QIS were presented to the BSAs directors during this meeting and the directors agreed to help ensure full support to conduct QIS and test it with the banks. PARE noted that they will continue to engage with the BSAs to help them test the QIS as well as to suggest appropriate solutions to address potential concerns to facilitate successful completion of the QIS.



USAID PARE hosts a meeting with management and directors of BSAs, January, 2013

"We very much appreciate a tremendous technical support from PARE which will help the banking supervisors contribute to conduct the QIS data collection testing exercise"- The Director of the BSARS, Mrs. Slavica Injac

Detection and reporting of fraud and other irregularities

January 29, 2013

Sarajevo, BiH

USAID PARE delivered a workshop to the fourteen selected financial and IT auditors from the Supreme Audit Institutions (SAIs) in BiH on auditing for fraud and corruptions. The workshop discussed the existing procedures in the SAIs' methodological guidance and practice for identifying fraud and corruption. This workshop was an interactive training format focusing on concepts and processes involved in detection and

reporting of fraud and other irregularities, and the challenges remaining for the SAIs in this regard.

Credit Risk Management Implementation-Part 2

January 29-30, 2013

Konjic, BiH

This workshop, which is a follow-up of a similar one organized in September 2012 for another group of participants, covered themes in credit risk management and implementation of Basel II regulatory framework. Topics were related to credit risk assessment techniques, Basel II Standardized Approach to credit risk management, credit risk mitigation, methods used in credit rating and scoring, legal and practical issues related to external credit assessment institutions, and regulatory reporting standards under EU Capital Requirements Directive. The workshop helped the

participants to understand how credit risk assessment and management methods translate from theory into practice and Basel II framework, in the context of draft decrees (including Decree on Credit Risk under the Standardized Approach, Decree on Credit Protection, Decree on the Recognition of External Credit Assessment Institutions, Decree on Capital Adequacy). Further, this was an opportunity for the participants to see numerous spreadsheet examples of application of regulatory framework as well the examples of COREP reporting standards and how they work in practice.



USAID PARE presents a workshop on credit risk, January, 2013

Financial Coordination Unit - Financial Development Report

January 29-31, 2013

Sarajevo, BiH

USAID PARE met with members of the Financial Coordination Unit (FCU) in order to discuss the BiH Financial Development Report progress, final changes as well as some minor pending issues. Draft presentation format was discussed, too. FCU members and USAID PARE agreed on the final steps to be made during February in order to complete draft Financial Development Report towards the end of February.

Code of Conduct Award Ceremony

February 4, 2013

Sarajevo, BiH

The twenty one high-ranking officials from public sector institutions in BiH, specifically the Agency for Civil Servants, the Agency for the Fight Against Corruption, received certificates of achievement from USAID for their participation in the Code of Conduct/Ethics Training for Civil Servants. USAID PARE organized a training on general principles and specific ethical standards for professional conduct by civil servants and public office holders. The training also highlighted how professional standards can improve efficiency and transparency and thus contribute to the fight against fraud and corruption.



USAID PARE hosts an Award Ceremony on Certificates of Achievements to BiH Civil Servants, February, 2013 “We hope that the knowledge the participants gained during the training will help them develop values that guide their judgment as they perform their daily tasks, and help improve public sector accountability in the use of public funds” USAID/Mission Director, David Barth

Joint Workshop on Establishment of BiH Association of Risk Managers

February 14, 2013

Sarajevo, BiH

On February 14, 2013 USAID PARE organized a joint workshop on the topic of “Establishment of BiH Association of Risk Managers”. This was a final focus group session which was attended by the representatives of various BiH commercial banks including Raiffeisen Bank, Intesa SanPaolo Bank, Sberbank – both Sarajevo and Banja Luka, and Nova Bank – Banja Luka. The main goal of this joint workshop was to present the findings and conclusions from the feasibility assessment which USAID PARE performed in the period of November 2012-February 2013 in order to determine whether self-sustainability and viability of establishing the BiH Association of Risk Managers exists. Following the conclusion of the workshop, all participants supported the idea of establishment, and a proposal of future plan of activities was discussed and agreed upon. As a result of the workshop, the participants have signed the individual commitment statement expressing their buy-in and involvement towards formally and legally establishing the Association

DCA LPG series of trainings

Volksbank BH, Sarajevo, September 4, 2012

Raiffeisen Bank BiH, Sarajevo, Mostar, Zenica Tuzla -January 23 and 24, February 12, 14 and 15, 2013

USAID PARE provided a series of trainings for representatives of the Volksbank BH and Raiffeisen Bank BiH (including representatives from sales and risk departments for corporate and small enterprises/clients) on more efficient utilization of Development Credit Authority (DCA) Loan Portfolio Guarantee (LPG) facility. These trainings discussed the (i) DCA facility goals and features, (ii) terms, conditions and functioning of the Guarantee Agreements (signed between USAID/Sida and BiH DCA partner banks Volksbank BH and Raiffeisen Bank BiH in September 2010), (iii) examples/explanations for exception and claim cases and (iv) results/experiences of the previous BiH DCA Guarantee program and DCA facility worldwide (more than 300 DCA guarantees in 67 countries) over the last 12 years.

Six (6) DCA LPG facility training sessions were conducted in a following order.

- Volksbank BH (6 representatives) Branch Office Sarajevo, September 4, 2012
- Raiffeisen Bank BiH (48 representatives) Regional Branches Sarajevo, Mostar, Zenica and Tuzla, in the period January through February 2013.

Workshop on Own Funds Decree

February 19, 2013

Vlašić, BiH

USAID PARE organized a workshop to discuss the Decree on Calculation of Own Funds of Banks. Presentation of this workshop focused on Hybrid Instruments, Own Funds legislation, and Own Funds calculations using Common Reporting (COREP), the standardized reporting framework issued by the European banking Authority for the Capital Requirements Directive reporting.



USAID PARE presents a workshop on decree on calculation of own funds of banks, February, 2013